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ROYAL COMMISSION ON BANKING
AND FINANCE

Hearings held at Montreal,
Quebec, on Wednesday,
May 16th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

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Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
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AND FINANCE

I N D E X

La Federation de Montreal des Caisses
Desjardins 1789

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--- On resuming at 9.30 A.M.

THE CHAIRMAN: I shall now call the meeting to order. We have the submission of La Federation de Montreal des Caisses Desjardins.

SUBMISSION OF LA FEDERATION DE MONTREAL DES CAISSES DESJARDINS

APPEARANCES

Mr. P. Viau - Inspector
Mr. A. Lamarche - General Manager
Mr. P.E. Blain - Counsel
Mr. G. Emery - Counsel

MR. LAMARCHE (Speaking in French, the following being an interpretation): Mr. Chairman, gentlemen, as secretary-general of the Montreal Federation of the Desjardin banks allow me to summarize very briefly the nature and role and the purposes of this economic institution which is called a people's bank -- Caisse Populaire.

You have in the brief which has been submitted to you by the Montreal Federation of Desjardin banks, a detailed account of the origins and the structure and the methods of operation used by the affiliated banks. I will, therefore, confine myself to outlining certain essential elements which confer

on our banks their particular characteristics.

The people's bank is a co-operative institution of savings and credit which was set up under the provisions of the Provincial legislation under the designation of the law of co-operative movements in Quebec as is given in Chapter 290 of the Quebec Statutes for the year 1941. Let us stress the exclusively provincial character of our institution whose field action cannot be extended beyond the limits of the Province of Quebec. It is a co-operative movement and our institution brings together people who wish to work together on an economic and social basis. For these purposes our members must finance at least part of the registered capital in order to obtain the services and advantages from this institution. In any case, each member does have equal rights which arise from his participation in the society and which are in no wise determined by the number of shares that the members may hold in the capital of the enterprise. Thus at the general assembly of members each member has the right to vote, which he exercises in his own behalf and which enables him to express his views on the management of the society. When we have to elect members of the board of administration or the supervisory council, and members of the credit committee, or to determine the percentage of dividends to be paid to the members on the registered capital, or when we have to take any important decision affecting the administration of our institution, in such cases each member who has a single share will have as much

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influence as other members who may have the major share in the registered capital.

The capital accumulated either in the form of registered capital or in the form of savings accounts held by the members enables our institution to offer its members credit facilities and at the same time to provide them with income in the form of dividends and interests as well as refunds and loans.

We should bear in mind that this institution does not make any profit and has no lucrative object. All surpluses must be distributed amongst the members after the bank has set up a reserve fund in accordance with the obligations imposed upon it by law.

As to the value of the shares in the registered capital, there can be no fluctuations here because it is determined by a fixed amount, namely, $5 per share.

The role of our institution: Our institution was founded in order to meet the needs of all those who do not have access to the great financial and economic institutions. It enables these people to form a group and establish a common capital which will give them advantages and profits which they cannot obtain otherwise. Through its structure and because of its limited territorial jurisdiction, this institution is better able to appreciate the concrete situation in which it is called upon to play a role. It studies each particular case in the light of the particular conditions prevailing rather than on the basis of overly rigid standards. Unlike other financial institutions which

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are interested primarily in commerce and industry, our institution carries on its activities on the personal basis and on the parish basis. When a request is received for a loan the credit committee, therefore, gives determining importance to the moral value of the person asking for the loan. Sometimes, danger is stressed to a person who asks for such a loan in applying for a loan that does not serve useful purposes. On the other hand, our organization enables each member to increase his own monies without running any risk and in accordance with the methods which are best adapted to his own personal situation.

The purpose: The popular banks in Quebec aim first at insuring for their members a certain degree of economic stability by placing at their disposal a savings and credit service which cannot be found in any other financial institution. The co-operative system of savings and credit which is involved in the popular banks is necessary and profitable to our entire society.

The federation: The Montreal Federation of Desjardins banks which has 22 affiliated associations today originates from a central body which is able to bring its members guidance and co-ordination which are necessary for the development of the co-operative movement. In respecting and observing the independence of the banks our federation has the right and the power to exercise effective control over them by means of an inspection service which enables it to observe and detect any errors or any irregularities committed

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by the administrators of the banks and take in each individual case those measures which are judged indispensible in order to insure for the members full and entire security. Generally speaking, we might say that our federation acts amongst the banks as a controller and technical advisor for the purpose of spreading more precise ideas on banking which would be best designed to perfect administrative methods and seeks to spread its movement by healthy propaganda. We offer our affiliated banks compensation services and payment orders. These can be obtained by the members of each of these banks.

I wish to thank you, Mr. Chairman and gentlemen, for giving me your careful attention in listening to this summary which, of course, is necessarily incomplete. I hope you have found in our brief information and details which will enable you to perform the analysis and study that you are presently conducting.

THE CHAIRMAN: Thank you.

(The following questions and answers are an interpretation from the French)

COMMISSIONER LEMAN: Mr. Lamarche, I think I can state on behalf of my colleagues that we have found your brief very interesting. It is quite full of important and useful information for us. Nonetheless, we have a few questions that do arise in our minds.

First, in order to clarify the position of your federation in the Province of Quebec, there is a certain

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point which is rather dubious for me, namely, the structure of your federation is based on a separation from the greater federation of the province, and I understand that there are 22 banks which are members of your federation and which are all located within Montreal. There were only 8 at the time of the separation, as I understand it. Now, was it then decided that your federation would include only those banks included in the diocese of Montreal, or were there other provisions involved?

MR. LAMARCHE: The statute of the Montreal Federation of Desjardins Banks states the territorial limit in which the Montreal federation may operate. If you allow me, sir, I will state these limits.

Actually, it is the ecclesiastical province of Montreal, sir, here. All our banks were members of the Montreal diocese until the time of the division of the Montreal diocese which set up the St. Jerome diocese. In other words, they were all members of the religious diocese of Montreal and their activities do not go beyond this limit.

COMMISSIONER LEMAN: Well, what is the size of this territory that is really the diocese of Montreal? Does this correspond to Metropolitan Montreal?

MR. LAMARCHE: Well, it is a little bigger than Metropolitan Montreal.

COMMISSIONER LEMAN: Well, when you mention the statutes of your federation, is this a document that you have in mind?

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COMMISSIONER LEMAN: Well, when you mention the statutes of your federation, is this a document that you have in mind?

MR. LAMARCHE: Well, we can submit the law of Quebec groupings as regards the Quebec federation. The statutes -- I think we have already submitted these documents to you, and it should be available to you, sir.

COMMISSIONER LEMAN: Well, Mr. Lamarche, there are a few other details I should like to know, and also the other members of the Commission would also like to know something about them. Does a member of your bank -- can he be an individual, or can a company or firm become a member of your bank?

MR. LAMARCHE: The law of co-operative movements states what type of individuals or groups can deal with our banks. Those persons can be members of our banks who are municipalities or corporations or agricultural societies, fishing societies, and also civil and commercial corporations in general can become members. It is Article VII of the law of co-operative movements which gives this power of membership.

COMMISSIONER LEMAN: Can you lend to your own members or can you lend to anybody?

MR. LAMARCHE: We can lend only to our own members.

COMMISSIONER LEMAN: Do you grant loans to businessmen or business groups?

MR. LAMARCHE: Well, as we see it, the purpose of this brief and the purpose of this Commission, as we see it, is to ascertain the true facts with respect to most or all of the operations that are conducted. Now, if we observe the terms of this definition we can

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state that our banks do not give loans to business groups; they do not give loans to businessmen, as such.

COMMISSIONER LEMAN: Does your reply simply concern your own federation or does it concern all popular bank groupings?

MR. LAMARCHE: On behalf of our own group, this reply concerns only our own group and our affiliated banks.

COMMISSIONER LEMAN: Why? Is there a reason why you do not grant loans to business groups? Is it a matter of principle, or what is the reason?

MR. LAMARCHE: Well, this is due to the fact that we give loans neither to business or commercial organizations; this is because of our organization. The popular banks were founded and they exist in order to fill a gap in the economic system to help the less fortunate elements of our population -- to help them on a family and social basis, to give individuals assistance rather than to give assistance to merchants. We also believe that there are other institutions that can meet the needs of industry and commerce and finance circles. Therefore, we do not wish to encroach on the operations of other institutions which generally furnish satisfactory service.

Our purpose is simply to assist individuals who do not have the same facilities to obtain loans under the existing capitalist system.

COMMISSIONER LEMAN: I note particularly in your brief at page 5 under the heading "Credit Commission" reference to the fact that the essential purpose of your movement is to provide your members with credits which they cannot obtain elsewhere. Is this a general remark that you are making, or do you actually ascertain in each individual case that the credit requested by each member is not accessible to that member through the other means?

MR. LAMARCHE: Tests have been made on several occasions. We can say, generally speaking, that credit requests made by members to the people's banks would be difficult to obtain under reasonable terms. We have in mind, for example, mortgage loans which in certain places do not constitute a very great problem. However, for our own group of people's banks, there are certain places where the central mortgage societies either directly or through the intermediary of an insurance company would not grant such mortgages because the drainage and sewage services have not been installed. You can find this on Ile Jesus and at many other places.

In respect to personal loans, we might say that everyone could obtain a loan elsewhere than at one of our banks, but they could obtain these loans only from a finance company at exhorbitant

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rates of interest, and you are aware of these exhorbitant rates.

COMMISSIONER BROWN: What rates do they charge?

COMMISSIONER LEMAN: Mr. Brown asks me to ask you what rate of interest you charge for personal loans.

MR. LAMARCHE: The average rate is about 6½ per cent.

COMMISSIONER LEMAN: What is the rate that you charge on mortgages?

MR. LAMARCHE: The rates of interest on mortgages are about the same. There is n o great variation between 6½ per cent up to 7 per cent. However, I think it is necessary to stress here that in respect to these interest rates, both on personal loans and mortgages, they are covered by life insurance which amounts to approximately three-quarters of one per cent. This is included in the 6½ to 7 per cent, so this would actually reduce the rate of interest on the loans to something below 6½ or 7 per cent.

COMMISSIONER BROWN: Thank you.

COMMISSIONER LEMAN: Now I should like to refer to another subject, Mr. Lamarche.

I understand part of the philosophy of the movement embodies the idea of cooperation. Nevertheless, in your Federation there are certain units that are very large and important, the largest having a certain number of members. What is

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that number?

MR. LAMARCHE: The largest have from 8,000 to 14,000 members.

COMMISSIONER LEMAN: When you have between 8,000 and 14,000 members you cannot have very close personal knowledge of the members, is that not a fact?

MR. LAMARCHE: I think we should, nevertheless, take into account the fact that in spite of this large membership, 14,000 members, a bank does not reach that level from one day to the next. That is my first point.

Secondly, the banks are organized on a parish basis. Now, those who know how our French Canadian parishes operate will know that there are several bodies of a religious or semi-religious character where people meet very often and where people can get to know each other.

Thirdly, in our banks we do not have what you have in the ordinary banking system where an employee is moved from one branch to another; one branch may be at the other end of the country. Generally with us the supervising personnel of a bank are there on the spot and on the job almost for life. I think that without claiming that there is absolute intimate knowledge of each member in the bank, we do have much closer knowledge than that which exists in other capitalist type institutions.

COMMISSIONER LEMAN: From what you have said, Mr. Lamarche, can you now describe what happens

at the annual meetings of the bank? I think there are elections of officers of the bank and others who have to direct the bank. You have explained that in general these people remain at their jobs for a long time. I understand they also have other stable employment, but what do they do at the annual assembly? Are there competitive elections or is everything carried out very quietly? What actually happens?

MR. LAMARCHE: The elections at the bank are not like provincial, federal or even municipal elections, but much calmer. It may happen from time to time that there are differences of opinion.

The cooperative movement is a large family and there are really no difficulties involved in that regard. As a general rule the elections take place in an atmosphere of calm and tranquility. Of course, there are replacements when a director or officer of a bank reaches a certain age. There is a question of replacing him with a younger man, but we have no difficulty, and that takes place quite naturally.

COMMISSIONER LEMAN: Do you feel that members have a very active interest in the conduct and the business of the bank? Is there, for instance, discussions and criticism as to how the bank is directed?

MR. LAMARCHE: Yes, there are discussions at all of our general assemblies. The governing body or board must present financial reports

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for the past financial year giving a certain amount of detail and the state of the income and expenditures. The loans committee also presents a report on the number of loans that have been granted and on the different classes of loans. For instance, there is a report regarding loans from zero to $500 and from $500 to $1,000, and so on. This is done in respect to personal loans and mortgages. The supervising council also submits a report, and each of these three reports is presented for study and discussion. At some stages discussion is more active, and less active at other stages. There is of course some discussion in regard to these reports.

In addition to this, the members have the right to submit their own suggestions and to present their own ideas with regard to the general management of the bank.

COMMISSIONER LEMAN: Now, we must go on from the bank as a unit to the part played by the Federation in the system.

COMMISSIONER BROWN: Before we go on to the Federation as such, I should like to ask one or two questions.

Of the membership which can vary between 8,000 and 14,000 in the larger cases, what proportion would have deposits in excess of borrowings, and what proportion would have borrowings in excess of deposits? To continue with the same question, at your annual meetings are there ever instances where the borrowers try to outvote the depositors?

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Of the membership which can vary between 3,000 and 14,000 in the larger cases, what proportion would have deposits in excess of borrowings, and what proportion would have borrowings in excess of

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MR. LAMARCHE: If I understood your question properly -- I missed a portion of the translation -- I should say that in 1961, December 31, we had 65,900 members in our banks and 8,800 borrowers, so you see the great majority of the shareholders are not borrowers.

At the general meeting this problem does not arise as far as we know because the interests of the different sections are more or less smoothed out. Everyone finds his own particular advantage. Some wish to have a rate of interest as high as possible, or the largest dividend possible on his share in the capital, while the borrower on the other hand wants to have the cheapest borrowing conditions possible and returns on the loans, so we find that these things cancel out each other and a balance is achieved between the two factors that may apparently seem to impose one upon the other. In practice we have never observed that the borrowers direct the administration of the bank for their own advantage or that others can do so. We find that a balance is always maintained.

Does that sufficiently answer your question?

COMMISSIONER BROWN: Yes, thank you very much. I actually wanted to know the proportion between the depositors and borrowers and apparently it is about eight to one. Thank you.

COMMISSIONER GIBSON: Mr. Lamarche, I would like to ask you just a few additional questions

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about the management and the role of the depositors and shareholders. You have annual meetings. How frequently do you have board meetings during the year? How frequently do you have supervisory meetings of your membership?

MR. LAMARCHE: The meetings of the boards of our banks must be held at least once per month and, if necessary, there should be meetings more frequent than once a month. They are held according to requirements.

COMMISSIONER GIBSON: At these meetings, do the board members discuss the individual credits right down to the small ones, and mortgage loans or do they simply have a general look at what is going on?

MR. LAMARCHE: The board members do not deal with the loans. We have a loan committee dealing with the loans and that committee has complete control of these loans. This loan committee is not subject to the supervision of the board but is subject to the control of the general assembly. I would like to make this correction. I do not want to give the impression that there is the same frequency of meetings of this board as of the other board. The loans board or loans committee has a meeting every week at most of the banks because of the applications for loans that have come in during the week.

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about the management and the role of the depositors and shareholders. You have annual meetings. How frequently do you have board meetings during the year? How frequently do you have supervisory meetings of your membership?

MR. LAMARCHE: The meetings of the boards of our banks must be held at least once per month and, if necessary, there should be meetings more frequent than once a month. They are held according to requirements.

COMMISSIONER GIBSON: At these meetings do the board members discuss the individual credits right down to the small ones, and mortgage loans or do they simply have a general look at what is going on?

MR. LAMARCHE: The board members do not deal with the loans. We have a loan committee dealing with the loans and that committee has complete control of these loans. This loan committee is not subject to the supervision of the board but is subject to the control of the general assembly. I would like to make this correction. I do not want to give the impression that there is the same frequency of meetings of this board as of the other board. The loans board or loans committee has a meeting every week at most of the banks because of the applications for loans that have come in during the week.

COMMISSIONER GIBSON: I understand the

members of the loans committee are all shareholders and voluntary workers rather than paid workers, is that correct?

MR. LAMARCHE: The loan committee members, like those members of all the boards, receive no salaries, nor do they receive any special allowances of any kind. This is strictly on the basis of voluntary work.

COMMISSIONER GIBSON: Do those members pass on loans or do the staff members have the right to pass on loans at their own discretion? I refer, of course, to loans and mortgages.

MR. LAMARCHE: The loan committee deals with all loans. The manager of the bank has no right to grant a loan. He has not the authority to do so. The loans committee has the responsibility for this.

COMMISSIONER LEMAN: Now, Mr. Lamarche, we shall go on to a discussion of the Federation itself and the part it plays in the group.

The Federation serves to supervise the whole of the group to some extent, one might say?

MR. LAMARCHE: Perhaps quite a lot.

COMMISSIONER LEMAN: So the association is on a strictly voluntary basis. The Federation as such has no actual authority in respect to the different units?

MR. LAMARCHE: The Federation by virtue of that law is a cooperative movement or union, and by virtue of its own constitution has

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authority. The banks are free to affiliate, or not to affiliate, with the Montreal Federation of Desjardins. If they join the Federation in Montreal of the Desjardins banks they have to accept the rules that are kept up for all the participating banks. On the other hand, the law compels the banks to be inspected at least once per year by the organized Federation. The Federation has certain powers which while fully respecting the independence and economy of the banks, to see that the public money is protected. That is the first part of the rules applied by the Federation. The central organization supervises and makes sure that the money deposited is managed according to the law and the rules and established customs.

COMMISSIONER LEMAN: What would be the main sanctions that could be imposed by the Federation if they found a bank that had practices that it could not approve of? Would it have to be disaffiliated or what would happen?

MR. LAMARCHE: The expulsion of a bank is an extreme measure. We may say that we expel a bank because we have not been able to solve a problem about them. In 99.9 per cent of the cases the problems are solved before we get to that point.

COMMISSIONER LEMAN: There is one thing rather remarkable in Quebec, Mr. Lamarche. It is that the law seems to say nothing on the details of operation of banks. Do you think it would be advantageous for the law in Quebec with regard to all this question of cooperative loan institutions, that it should be developed more than it is at the present time?

MR. LAMARCHE: With all respect that is due to this Royal Commission we do not wish to discuss the legal aspect, nor any recommendations that we might wish to make to the authorities concerned.

COMMISSIONER LEMAN: Your answer surprises me a little. I do not want a detailed report, but I want to see in such legislation whether in your opinion something should be done in that direction. Would you be in favour of a greater development of the law than we have at present?

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It is a general question I am asking you.

MR. LAMARCHE: We might say in a general way that all laws benefit from being improved and I think that everything that is under human administration is imperfect to a larger or smaller extent. The laws, as everything else here below, necessarily could be improved.

COMMISSIONER LEMAN: You said a few moments ago that most of the problems that can arise during the inspection to see how the banks are administrated, in 99.9 per cent everything is arranged by discussion, but in practice do you find certain tendencies on the part of the banks which the Federation would not generally approve of?

MR. LAMARCHE: I think we might state that in general the trends that are evident in the different banks are normal ones. They are acceptable and there is no need to face this problem from our point of view.

COMMISSIONER LEMAN: Nevertheless, there may be cases where the Federation wants to in one way or another reprimand a bank. How has that been done in the past?

MR. LAMARCHE: We have a case at present which is before the courts and it is impossible for us to discuss here a case which is before the court at the present time. That is the only case we have had after 16 years since the foundation of the Montreal Federation and it is impossible for us to give information on this question while it is sub

judice.

COMMISSIONER LEMAN: Could you not tell me in general what kind of problems arise in such cases?

MR. LAMARCHE: This is a question which is part of the public document that is before the court and we can mention the facts that have been mentioned and have come from a group of administrators who were deceived by the manager and they believed that they were obliged to support their manager in spite of certain facts, serious facts that had been brought to their knowledge with regard to certain deposit accounts and loan accounts in the bank.

COMMISSIONER BROWN: To deal with this in a more general way and to still get an opinion, section 21 of the act says that the board of supervisors of every cooperative syndicate for credit, provident or other economic purposes shall at least once a year cause all the operations of the unit to be audited by an inspector of the Federation under Section 49, et cetera. I gather that while they have to be audited by one of your inspectors you have not really got very much power to impose sanctions other than expelling them from your Federation. Would you be in favour of having more power in this statute so that you could in fact ensure that they operated in accordance with the legal requirements?

MR. LAMARCHE: First of all we have an inspection service which has the powers of any auditor. It has access to all the documentation and if serious

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errors are found in the management of the funds there are avenues of action which are accessible. They can exert the powers of the supervisory body of the bank and the powers of the supervisory board are permanent in the bank itself and, as I was saying as for the other committees they are subject to the control of the general meeting and the supervisory board has the power to suspend from their employment any employee of the bank and even the members of the loans committee. If on inspection serious matters are disclosed then the supervisory body can exercise these powers. If, in spite of that, we do not succeed in solving the problem and it is desirable to expel a bank, then the law forbids that organization from bearing the name of Caisse Populaire because only these affiliated Caisses Populaires, these banks affiliated to the Federation can bear the names Caisse Populaire or Caisse Desjardins or Caisse Desjardins Populaire. They would have to take on another name in order to continue operation.

COMMISSIONER BROWN: Have you the power to call a general meeting of all the members in such a case, in case the supervisory body does not carry out what you considered to be the appropriate action?

MR. LAMARCHE: Sir, you are asking a hypothetical question there, because in practice we have only had one case, the one that I mentioned a few moments ago, and we were able to convene

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a general meeting of the shareholders in that case. But in practice to my knowledge we have never had any need to go so far.

COMMISSIONER BROWN: Thank you.

COMMISSIONER LEMAN: Mr. Lamarche, I would like to pass on to another subject. I think we have completed our study on the points that we have mentioned up to now. Now, I would like to have an idea of your general policy with regard to the liquidity of the banks and of the Federation itself and the solvency of these banks. You have given us a good idea of the general financial situation but with regard to the policy recommended by the Federation to the banks, could you give us your general view of the percentages which should be kept in the different banks as liquid assets?

MR. LAMARCHE: According to our own regulations we request the banks to maintain about 8 per cent of their assets in deposits to the Federation. This means that the banks have to have a percentage of liquid assets that is higher than for the needs of operating the counter and we can say that the bank maintains 5 per cent liquid assets and 5 per cent goes to the Federation plus another 5 per cent not based on assets so that you will see that with regard to these percentages this is found on pages 15 and 16 of our report where we give details of the operation.

This points out that the Federation has

two funds, one term fund and one fund which is on sight, and the fund receives from each affiliated bank the equivalent of 3 per cent of the savings based on the first of November previously.

With regard to the funds on sight which refers to the compensation, that is, the bank cheques and cash order payments, this is a system accepted by all banks that 5 per cent is the figure that has been fixed -- 5 per cent on the assets.

COMMISSIONER LEMAN: Now, what is the policy of the Federation itself?

MR. LAMARCHE: We have very carefully kept abreast of the discussions that were conducted before this Commission at the time the credit unions appeared. We realize that the standards for liquid assets differ from those in the banking system. This is due to the fact that since there are deposit savings accounts and registered capital deposits which are not subject to such rapid withdrawals as is the case for commercial and industrial accounts in the banks, therefore this question of liquid assets is placed on a different level so that the Federation -- and you will see in the Federation's statistics some information concerning the way in which operations are conducted with respect to liquid assets. We understand liquid assets to mean not only deposits in the bank or liquid cash but we understand it to mean also bond portfolios. We will see -- and we are checking this matter, I will tell you on what page you can

find this information -- beginning on pages 9 and 10. We have given statistics of the Federation and you will see the variations in the Federation's portfolios.

In 1955 this was not a very important factor. We go on to 1956 and point out that in 1956 during the March quarter with respect to obligations of the government of Canada there were about -- we can give you statistics here. First, there are 12 pages of statistics concerning the affiliated banks. We have the particular bank statistics and thereafter we furnish the statistics concerning the Federation itself.

In 1956 during the June quarter there were $275,000 worth of bonds. If you study the movement in this portfolio you will see that the investments of the Federation were made in order to meet a need for rapid liquidation or to meet certain payments that were required to meet the needs of fluctuations in the deposits and withdrawals.

It is a fact that we never had any serious problem with respect to this on the level of the Federation. With respect to individual banks their portfolios are so organized generally speaking that every month there are certain payments to be made on bonds. There is not a single month where certain payments do not have to be made on those bonds.

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are made in the banks or in other institutions and there are the portfolios which take account, of course, of withdrawals but certain funds are not used in case there are any reductions. We must point out that there is an appreciable proportion of liquid assets arising from refunds of loans that have been granted since in the banks all loans granted with certain exceptions must have monthly refunds, must be repaid on a monthly basis. Therefore, if you consult the statistics of the individual banks you will see, for example, that in 1961 (this is on page 8) $27 million worth of mortgages and $3 million worth of personal loans or other types of loans which makes over $30 million. This gives a rather high proportion. Refunds are generally made on the basis of one-half of one per cent per month plus interest.

COMMISSIONER LEMAN: I note that in the statistics you give us that in the Federation itself in recent years -- I am thinking of 1959, 1960 and 1961 -- there has been a rather great deal of fluctuation in the overall position. In certain quarters we see that this position has become negative. It amounts to having received a loan from the bank. Now, are there any seasonal factors or any other factors which may influence these fluctuations?

MR. LAMARCHE: The Federation which receives deposits from its individual banks and which pays

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interest on these deposits must increase, must rectify the funds which are deposited. At the same time its main purpose is to maintain a high level of liquid assets because of possible withdrawals that may be made by the individual banks.

It may happen at the beginning of each year we try to adjust the portfolios. We purchase treasury bonds which at the end of the year will disappear almost completely, and there are certain guaranteed deposits placed with trust companies, and there are purchases of other governmental obligations -- or, provincial obligations, with staggered payments.

There are certain periods of withdrawals: For example, we know that the period July to November is a period of withdrawal. Most of our groups in Montreal have to pay taxes at this time, and we feel the effects of this withdrawal period, and we have to take appropriate measures in order to have sufficient availabilities because we know there will be withdrawals.

COMMISSIONER LEMAN: I hardly see that your statistics confirm what you have just stated. With respect to 1960 and 1961, at the end of March, June and September you had certain deposits in the banks. At the end of September we see that you had a negative position with respect to banks. This is on page 6 of the statistics of the federation. The same thing in 1961: You have a rather considerable deposit in the banks, but in December the sum increases to $315,000; and if we look for your liabilities here we do not see how the deterioration of your position corresponds to the withdrawals made by the banks. At the very moment when you had the least cash available the deposits were at their highest point. Are you following me? I am referring to page 6 and page 7 of the statistics of the federation.

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MR. LAMARCHE: Well, I think it is difficult to set up a direct relationship between the federation's funds and the funds of the banks and to draw this as an analogy here. You refer to the September quarter, and the figures here do not weaken our assertion. Even if the statistics for a quarter state that at the 30th of the month there is a debit balance, the very next day there could be a very positive balance. The federation will accumulate availabilities to anticipate certain withdrawals and will take measures to make the funds on its deposit as productive as possible.

COMMISSIONER LEMAN: But could you state, then, that in your investment policies the withdrawals of the banks which cause these sudden slumps of liquid assets held by the federation -- is it these sudden withdrawals which cause the fluctuations?

MR. LAMARCHE: Well, there are certain massive withdrawals occurring at certain times which could not be foreseen. Necessarily, of course, we feel the effects of this and we are forced to sell our liquid assets in order to meet the situation. We have in the bank a certain credit margin which enables us to anticipate situations. If it is simply a matter of two, three or four days there is no need to ask for credit elsewhere, but if we see that the situation will continue, then we have to take immediate measures to re-establish our liquid position.

COMMISSIONER LEMAN: You have just stated that you have a credit margin in the banks: What is the relationship between this credit margin and what

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COMMISSIONER LEMAN: You have just stated that you have a credit margin in the banks: What is the relationship between this credit margin and what

you call in your statistics fixed deposit in the banks.

MR. LAMARCHE: There is no relationship.

COMMISSIONER LEMAN: Well, what is the role of these fixed accounts?

MR. LAMARCHE: Well, this is part of a banking agreement.

COMMISSIONER LEMAN: Well, every banking agreement must have a purpose. Doesn't this concern the need to honour your payments, or what is its purpose? Don't these fixed accounts play in your favour?

MR. LAMARCHE: No, they do not.

COMMISSIONER LEMAN: Well, you have not made an arrangement to maintain $500,000 to $800,000 in your bank without any purpose in mind. What was your purpose?

MR. LAMARCHE: In 1959 the banks gave us a lot of trouble, and after several months of negotiation one bank agreed to solve our problems for us. However, since the banks do not work for nothing one of their conditions was to leave a fixed unproductive deposit in this bank, and this is the amount you see before you. Does this answer your question, sir?

COMMISSIONER LEMAN: Well, what was this condition -- simply to maintain credit?

MR. LAMARCHE: No, it does not depend on the credit margin, sir.

COMMISSIONER BROWN: What was this problem with the banks? I notice you had deposits, except

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MR. LAMARCHE: Well, the problem was the payment orders on the banks were circulating throughout the banking circuit and the banks told us then, "You are benefitting from the banking circuit and not paying anything for it." This is not exactly true, because we had to pay for the exchange charges on bank cheques that had been cashed, and there was of course a certain reciprocity because the banks paid us the exchange, of course, on payment orders that had also been cashed. This fixed deposit was to represent, or partially represent, the costs that were charged to us for circulating payment orders throughout the banks. We had to pay for providing paper monies outside of these factors.

COMMISSIONER BROWN: In other words, this is for participating in the clearing systems of the banks. I notice in March, 1961 this fixed deposit was $672,000, and in June, September and December it was $657,000. Is it a fixed sum, or is it related to your turnover? What is the basis of this fixed deposit. That is the first question.

My second question is, if this is a fixed deposit, and it appears to vary -- when you had an overdraft at the end of September, was this a real overdraft or was this covered by cheques in clearing, and if it was an overdraft do you have to pay interest on it? In other words, does your fixed deposit cover your overdraft, or is it something that is fixed, and

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if you overdraw on your other account you have to pay overdraft charges?

MR. LAMARCHE: In answer to the first question, I will say it is a fixed deposit. We were drawn into it by the hands, so to speak. However, we succeeded in obtaining that the fixed deposit should be reduced to $650,000, but we do pay interest on temporary loans that we make to the banks, and we have to transport to the banks the obligations of the Government of Canada in order to guarantee the loans that we make to the banks.

COMMISSIONER BROWN: This fixed deposit seems to go up in 1960 from $701,000 to $772,000. It must be related to something if it goes up and then down. What is the basis of these variations?

MR. LAMARCHE: Well, this corresponds to the increase in the operations, in the transactions that have occurred.

COMMISSIONER BROWN: Thank you.

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COMMISSIONER LEMAN: Mr. Lamarche, to continue our discussion, I should like to ask you whether you could describe the loan policy of your banks. Can the banks borrow from the federation, and do they at times, or do they not?

MR. LAMARCHE: Well, the banks may borrow from the federation provided they furnish certain guarantees for these loans. Several banks also have agreements with the branches of local banks in order to obtain loans when they need them, and in actual fact

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MR. LAMARCHE: Well, the banks may borrow from the federation provided they furnish certain [illegible] agreements with the branches of local banks in order to obtain loans when they need them, and in actual fact

it happens rather rarely that our banks are obliged to borrow either from other banks or from the federation. Our principle which has been established at the very outset of the founding the bank is that we say to each of these banks, "Despite the fact that you are affiliated with the federation and that the federation is available to you to meet your needs, you yourself must be so organized as to act independently." As a result it is only very rarely that our member banks are obliged to borrow either from banks or from the federation itself.

COMMISSIONER LEMAN: In studying the statistics of the federation that you have submitted we do not see any item giving the loans to the banks. Could this be contained indirectly in the figures under another item? Are the deposits of the banks with the federation -- does this item reflect this?

MR. LAMARCHE: Well, we have two forms of loans which can be granted to the banks. The first form is under compensation accounts which is entered as debit and which is deducted in accordance with the prevailing needs. This debit generally lasts only for a few days. There is a second type which you will find on page 5 and page 6 and thereafter. If you will look under No. 46(a), "Rediscounted Mortgages," we ask certain of our banks to rediscount one or more mortgages for their needs. You will see in 1959, for example, we have $10,405 for the June quarter. This is on page 5, the statistics of the federation. This is under Loans. At the end of the

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year, December, 1959, we have an amount of $67,395, and if you go down to the end you will see that these sums are not very important when considered as a whole.

COMMISSIONER LEMAN: Well, if you refer now to the statistics at the banks themselves, as you have just said, sir, you do not encourage the banks to ask for loans. You encourage them to act independently without resorting to loans, but if you look at the statistics for 1961, the figures that you give here seem to confirm that the banks indeed do not ask for loans. The figure given here, the corresponding figure, is rather minimum with respect to over-all activity, but these are end of the year statistics. Do you have anything more specific?

MR. LAMARCHE: Well, these are the statistics we are wanting to give concerning the banks. We are doing them at the end of the calendar year, as of the 31st of December for each year.

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MR. LAMARCHE: Well, these are the statistics we are wanting to give concerning the banks. We are doing them at the end of the calendar year, as of the 31st of December for each year.

We do not have a single bank which ends its fiscal year at December 31. The fiscal year endings are scattered throughout January, February, May, September and October, depending on the particular Caisse. Therefore for the need for statistics we have to work through by evaluating the ends of the fiscal years. It is only the exception that banks must resort to borrowing from the federation. It is a bad principle to borrow in order to lend. You cannot borrow using funds which are not available to you.

COMMISSIONER LEMAN: The federation follows the same policy, that is to borrow as little as possible and to use the availabilities as much as possible?

MR. LAMARCHE: Yes, this is true with one exception. There is a certain difference involved. As I explained to you a few minutes ago, during the first part of our discussion, the banks have certain payment obligations to meet every month. We receive amounts up to $500,000 in payment on obligations so our federation immediately tries to purchase treasury bonds in order to obtain something for this money, even if they are at very small rates of interest. The banks may utilize the sums that they have just acquired according to their needs. This happens more often in the federation; that is, the bank account will be in the red but only for a period of three or four days, hardly longer. This, as I say, occurs more frequently to the federation because as

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the banks themselves with respect to the members in the form of mortgage loans, or in the form of bonds purchased, in order to maintain the rotation of the particular holdings of the particular portfolio. The sum may indeed vary. It might happen that we have a deposit although it does not appear in the statistics. We may have a deposit in a current account to the amount of $2 million. Of course, we do not want to leave that $2 million unproductive. We want to invest it somewhere.

COMMISSIONER LEMAN: Have you thought of making short-term loans and entering the money market, making loans of 90 days or for other short periods of time?

MR. LAMARCHE: Well, this has often been suggested to us but we have never seen the need to resort to such a procedure.

COMMISSIONER LEMAN: Does this mean that bank loans are rather regular?

MR. LAMARCHE: No, we do not have any need for that. This is not such an important element for us. It does not encourage us or motivate us to obtain finances this way.

COMMISSIONER LEMAN: Mr. Lamarche, with respect to assets you have given us some rather interesting statistics concerning payments on government obligations and on the maturity of government obligations, but you have given us no figures concerning the averages with respect to other obligations in connection with the Canadian Government. Can you tell

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us something of the nature of these investments? Are they long or short-term investments? What kind are they?

MR. LAMARCHE: Our attention was drawn to that fact which you mention, sir, that there is no maturity given to securities other than those of the Federal Government. The reason for this/quite simple, is namely, the suggestions contained in the brief do no make mention of this point. However, the general investment policy is that each of our banks, as the federation itself, must invest in obligations staggered over a period of from one to five years, or one to ten years. Now, with respect to the federation, most of our portfolio comes to maturity before five years. Of course, we have maturities up to 1971, but this represents a rather small proportion of our investments.

COMMISSIONER LEMAN: These short-term loans do not apply to municipal or school obligations?

MR. LAMARCHE: Yes, they do, however, we do encourage the banks to purchase obligations that go directly to 10 years or even more. I refer to Government of Canada bonds because we consider such securities to be first class.

COMMISSIONER LEMAN: Since you have given a great deal of attention to the staggering of the maturities in your portfolio, does this mean that you do very little purchasing and selling before maturity?

MR. LAMARCHE: Our banks are not security brokers except in certain exceptional cases. The maturity dates are met and the securities are kept

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in the portfolio until they reach maturity. That is our general rule.

COMMISSIONER LEMAN: When you do carry out such operations do you apply to a real estate dealer?

MR. LAMARCHE: Yes.

COMMISSIONER LEMAN: Do you have any particular arrangement with certain real estate agents or do you just proceed directly with your purchases and sales?

MR. LAMARCHE: No, we have no particular arrangement with any broker. Our banks are free to approach the broker of their choice. We are not interested in a particular broker, it is the security that counts.

COMMISSIONER LEMAN: Have you any additional views to state in respect to the general market for funds? Have you any difficulties you wish to mention?

MR. LAMARCHE: That is a very good question and I am glad to reply to it because it raises the opportunity to stress another factor which is very important in the light of our banks.

The market in bonds for school municipal commissions and the municipalities of our province has not been very prosperous at all times and we consider that due to the fact that we must maintain a certain amount of money available for withdrawals by our members, and since the law allows us to buy municipal and school commission bonds, this has fulfilled another need in the market in the Province of Quebec because in general the brokers who do not know the function of our small town and village commission were

not very much in favour of a transaction and issue of bonds to build a school or develop municipal facilities in the parishes except in the case of large towns which are well quoted on the market. As a result the gradual increase in size means that we were directed toward municipal and school commission bonds. This allowed these municipalities to develop more rapidly than they otherwise would have done. That also corresponds to another characteristic of the organization of our banks, and this has been possible because there are banks -- we have banks all through the province and we know the different environments while the financial world does not necessarily know this.

COMMISSIONER BROWN: I gather that while your operations are confined to the dioceses of Montreal or to the provincial diocese of Montreal you buy municipal securities throughout the province? What are the categories? What are the autres corporations canadiennes that appear at page 6 in your statistics at line 27?

MR. LAMARCHE: I cannot tell you offhand details of the overall figures. We have given you 24 pages of statistics and that is quite a lot, you know. If my memory serves me right I think this refers to fixed deposits in trusts that are actually deposited for periods of a fortnight or perhaps three to six months. At least to a large extent that is the case. I am quite sure that these are not loans to companies, to businesses or to industries. We do

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COMMISSIONER BROWN: With whom would these deposits be made?

MR. LAMARCHE: With trust companies in Canada.

COMMISSIONER BROWN: Trust companies.

COMMISSIONER GIBSON: Before you leave this subject of securities I noted that in answering Mr. Brown you said that you had the right to buy municipal securities over a much wider area than the area in which you operate. These municipal securities involve a large sum of money a represent a large item in your statement. Are most of these securities held in your own area as a matter of practice, or in municipal areas in your own area and school district?

MR. LAMARCHE: The tendency is to encourage the group purchase of municipal bonds in the area surrounding Montreal because we live here and we know this sector better than the other parts of the province.

COMMISSIONER GIBSON: This is one of your prime functions, to assist municipal governments in that area. You do regard this as an important function of the Caisses, do you?

MR. LAMARCHE: No, I do not think that we can say that this is a main function of the Caisses. The main function of the Caisses is to create benefit for the members and shareholders of the Caisses. As I said, for the reasons of safety we cannot lend out 100 per cent of their deposits received so that surpluses that we cannot lend is put into this kind of

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bond.

COMMISSIONER GIBSON: This is a matter that you regard as a significant service you perform in your community, is that correct? Do you usually buy these securities when they are issued or do you sometimes buy them on the market, and I refer to municipal securities?

MR. LAMARCHE: No, we buy them always on the market and we do not really take into account the time of issue because it all depends on what the brokers can offer us; what paper they can offer us and the time of maturity as well as the amount of dividend, and so on. Sometimes a Caisse will buy a certain slice of a new issue just as a Caisse may buy a certain amount of an issue that came out perhaps two, three or four years before.

COMMISSIONER GIBSON: Now, are these municipal security holdings of the Caisses as opposed to the federation mostly short-term? You said when you were talking about federation holdings that a large portion were one to five year holdings and perhaps some a little longer, but are these the same or do they tend to be a little longer term?

MR. LAMARCHE: In our Caisse Populaire the time of maturity varies somewhat. The parochial Caisse is not in the same situation as the central organization and it does happen that the maturity is further away. That is not from one to ten years but for a period slightly longer. In view of the fact that the maturity, if it is 10 years, will come to five, six

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COMMISSIONER LEMAN: Mr. Lamarche, I should like to ask you one or two questions in respect to the mortgages offered by the Caisses. On pages 8 and 9 I notice that the normal renewal of your mortgages varies from three to five years. I think the basis of repayment is worked out over a period of 10 to 15 years. I think we would all agree that a mortgage of three to five years is rather short. Perhaps that is why the amortization is calculated over 10 to 15 years. What happens in practice in that regard? Is there almost an automatic renewal of the mortgages?

MR. LAMARCHE: In general the renewals are made after having been re-examined by the loan committee, and they are then renewed or not. If the borrower fulfills his payment satisfactorily then it is renewed. If he does not fulfill his undertakings to the satisfaction of the loan committee then the borrower is requested to pay the loan off when it has expired.

COMMISSIONER LEMAN: I suppose that your experience has been rather favourable with regard to mortgage loans. What happens in practice then is that the mortgage loan is generally renewed because the initial time is rather short to be of service to the borrower?

MR. LAMARCHE: You are quite right. In general these mortgages loans are renewed.

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COMMISSIONER LEMAN: In regard to mortgages

is there a specific kind of building that you prefer to grant mortgages on or is there a very wide field with regard to the buildings covered?

MR. LAMARCHE: The Caisse Populaire only make loans for family dwellings and do not give mortgages for commercial or industrial buildings. There are only a few cases where we might say that there is a building of mixed character. For instance, there may be a shop or store on theground floor with a dwelling above. Under those circumstances the Caisse might agree to give a mortgage loan.

COMMISSIONER LEMAN: Do you have any policy with regard to the percentage of the market value of the building?

MR. LAMARCHE: The policy followed by the Caisses is to allow between 50 and 75 per cent of the value of the property.

COMMISSIONER LEMAN: Do you establish these values yourself or do you consult a real estate agent?

MR. LAMARCHE: The credit committee people are trained in this. There is a credit committee member who has been an estimator, for instance, for a company that dealt with buildings or in other cases he has been a builder or a carpenter and certain standards are worked out in advance and the borrower has to fill in a form of application with questions on the municipal tax evaluation, the price paid, whether there are rents and what their amount is and after having received all this information the credit committee board go and visit the property to decide what its value is taking into account the different factors which have been submitted for consideration.

COMMISSIONER BROWN: I understand you to say that between 50 and 75 per cent of the value of the property. My reading of the act says not exceeding three-fifths of the municipal evaluation of the real estate affected. Is there a difference or has this been changed? Can you explain this?

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COMMISSIONER BROWN: On the statistics you supply you just lump all mortgage loans together. Have you any idea how much of this would be of the first category, in other words, loans on mortgages to members and how much would be in the second category that you mentioned of investment which are mortgage loans on the basis of this section of the act?

MR. LAMARCHE: We have not submitted distinct statistics on that subject because this article of the law is practically not applied. It comes under the category of exceptions. What we call mortgages are to a large extent mortgages agreed within the limits of the members by the members of the loan committee.

COMMISSIONER BROWN: Thank you.

COMMISSIONER LEMAN: Has there been any question, Mr. Lamarche, of obtaining permission to

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COMMISSIONER LEMAN: Has there been any question, Mr. Lamarche, of obtaining permission to

grant loans on mortgages in virtue of the federal law on guaranteed mortgages that will be guaranteed by a central body?

MR. LAMARCHE: This question has not come up because we felt no need to deal with it because other sectors of the economy have satisfied the needs of this legislation or the needs this legislation was intended to cover. In our Caisses Populaires with the standards and the methods of functioning that we have we cannot respond to regular demands or requests from our members as it is so that we do not want to embark on a field of operation which, though not being very different, nevertheless is somewhat outside our existing scope and has been so for many years.

COMMISSIONER GIBSON: Is there no demand amongst your membership for longer term mortgage loans following along Mr. Leman's question? I am thinking of the Central Mortgage and Housing Corporation which are for very long terms. Yours run three to five years and as a matter of practice are they requested frequently?

MR. LAMARCHE: We do not as a general rule receive requests for mortgage loans from persons who could apply to the Central Mortgage Organization. There is a law covering that and it satisfies the needs. The sector for us in the Caisses Populaires is to cover the part that is not covered elsewhere so that if this Central Mortgage and Housing Corporation does not give the mortgage we can under normal conditions

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provide the mortgage loan.

COMMISSIONER GIBSON: How would your rates compare with the Central Mortgage and Housing Corporation rates on mortgages -- interest rates?

MR. LAMARCHE: On the surface they seem slightly higher because, as I said, our rates are about 7 per cent or 7¼ per cent or 7½ per cent on mortgage loans taking into account, of course, the life assurance included. But with the dvidends that are given to the borrowers I think the comparison gives almost similar results.

COMMISSIONER GIBSON: Is there a tendency among the caisses to increase your mortgage activities in relation to other activities over the years; in other words, did you used to do a bigger personal lending business relative to the total than you are doing now and a smaller mortgage business? You see, you have ten years here only which is a fairly short period in your history. Let me elaborate a little on my question. We have heard from a lot of credit unions and the emphasis there is almost uniformly on personal loans, not on mortgages. Was there a day in your history when you put more emphasis on personal loans and less on mortgages and has this mortgage business been part of the evolution of your development?

MR. LAMARCHE: The main part of our loans, as you will see from the figures on page 8, are mortgages. The personal loans which we call loans to the members is much smaller in proportion. How-

ever, we cannot deny that there is a tendency to develop further personal loans and this is due to the existence or, I might say, rather because of the interest rates that are charged by the finance companies. The caisse gives this service to its members and we try to respond to the needs of the members where they cannot obtain at reasonable rates the loans that they need.

COMMISSIONER GIBSON: It has not been your custom, though, to encourage personal loans? From the way you put it I gathered you say you are responding to a demand, a need, but your tradition has been to make mortgage loans rather than personal loans, is that correct ?

MR. LAMARCHE: There has always been a need for mortgage loans and the need has been smaller in the case of personal loans. One of the principles of cooperation is that we must encourage the small loan rather than the large loan, but when a shareholder wants to buy a property so that he can become the owner and have a place of his own he is not going to ask for $100,000; it is about $5,000 or $3,000 or $6,000 or $10,000. But for personal loans we can help a larger number of shareholders with less money.

COMMISSIONER LEMAN: When you speak of personal loans you speak of four categories on page 9 of your brief. Can you tell us if the distribution of these loans among these four classes is fairly equal or if one or two of these categories is much

larger than the others?

MR. LAMARCHE: The largest category, I am speaking from memory and not from the statistics which is much, much higher than the other categories is the first, that is, a simple loan on recognition of debt with or without endorsement.

COMMISSIONER LEMAN: You have spoken of loans with arrangements made to sever. Is this a question of principle?

MR. LAMARCHE: We are interested in making business with persons on the social, parochial basis. We are not interested in acting as agents of companies or firms or commercial undertakings because they have their own organizations and institutions which can take care of them.

COMMISSIONER LEMAN: You must have noted that in general the aim of these loans, that is, when people come to ask for a loan it is only for a few hundred dollars but what would you say was the main object of their asking for the loan?

MR. LAMARCHE: We have never conducted any particular study on the different reasons or the different objectives of those who seek a loan. The only thing that we can say is that there are a multitude of reasons for which a person may come to ask for a loan. It may be to pay his taxes of one kind or another, it may be to buy a television set, or buy furniture, or it may be for consolidation of debts or other reasons of that kind. He may want to buy a car

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or he may want a loan so that the father of the family can take a holiday and come back to work relaxed and fresh. We have never conducted any particular investigation of these reasons so we have no detailed report.

COMMISSIONER LEMAN: Unless other members of the Commission have questions on that field I should like to go on to another subject which is the tendency with regard to what we would call in good French "turnover" or the tendency to increase. You said from 1960 to 1961 there was a relationship between the withdrawals and deposits at that date. The figures you give us show that it becomes three times instead of two. Now, what does that depend on? Can you tell us what this acceleration was due to?

MR. LAMARCHE: What page are you referring to?

COMMISSIONER LEMAN: On page 10 you give the withdrawals from savings for each year and if we compare these with the balances given for the same date you see that there is a certain acceleration of withdrawals as compared with the average liquid holdings on deposit. If you look at the figures for 1961 which represent $126,600,000 and if you compare this figure with deposits of some $47 million at the end of 1961 or if you take the average of the deposits at the end of 1961 and if you divide this by two you will note you have

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now three times as much. There seems to be a certain acceleration of withdrawals as compared with deposits in the bank.

MR. LAMARCHE: I must say that I am not able to answer this question. We have not made any studies of the matter. You have made an observation, sir, but we are not in a position to answer your question.

COMMISSIONER LEMAN: In other words you have not observed this phenomenon in connection with your bank operations. You yourself have not noted any acceleration of withdrawals over the amount of cash on hand and you do not attach any particular importance to it?

MR. LAMARCHE: Well, for the time being, sir, we have no comments on the matter.

COMMISSIONER LEMAN: Mr. Brown has a question on another point. I should like to have your general observations on the factors that have influenced the great development of these caisses in this province. We would like to have your opinion on this point.

MR. LAMARCHE: Well, these are our remarks on this point. Banks in general believe that the phenomenal development of these caisses is due to unfair competition in the form of interest paid on deposits, this interest being higher than that paid in the banks. As a result of this situation that has been sufficient incentive to draw in a great deal of money.

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Now, experience has shown that interest rates do not play an important role in the favour shown by the public to Caisses, this type of caisse. In fact, it is only a secondary and even a negligible factor. An example will show the truth of this assertion.

In 1959 the banks insisted that the Caisses set up service charges which would observe the rules prevailing concerning clearance of cheques. The statistics given on page 4 for the Caisses in the first part of our brief give the results of this requirement which has been imposed by the banks. The arguments of the banks were that no service charges or administrative charges were made and that the depositors were not charged for cashing cheques which constituted unfair competition and attracted people to the Caisses. However, in 1955 service charges brought in some $9,600. Later, they brought in $34,600. In 1955 they brought in $100,000. In 1960 they brought in $26,000. Despite this additional charge the Caisses have not ceased to develop. On the contrary this same situation prevails with respect to interest paid on deposits. These factors alone are not the principal reason for the development of the Caisses.

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These factors may contribute to a certain extent, but to a negligible extent.

Another more important factor which coincides with the over-all development of the country is in the construction of buildings to house these Caisses. Over a period of 40 to 50 years, thanks to many sacrifices, the administrators of Caisse have been able to set up reserve funds which improves their situation with respect to security of the monies that have been entrusted to them and to the loans they grant. In the same way this has enabled our Caisse to build adequate facilities to house our operations. Up to that time we had to use church buildings or other types of structures that were available at moderate rates, thanks to the assistance of the clergy and to other persons who were convinced of the need for this type of activity. However, the proprietors and the land owners were mistrustful and they were rather cautious because they saw this sign of success on our part. Another factor was the multiplication of parish Caisses which enabled a greater circulation of the principle of co-operation which brought in a greater number of people. This multiplication made this activity very popular because it reached into all the corners of the province.

But above all, the fundamental reason is the fact that the savings and credit co-operative makes it possible for the poorest persons to have a share in property and gives them equal footing with more favoured members of society, for he who holds a share

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can become director or he can become a loan committee member or a member of the supervisory committee. He has voting rights. He has the same rights as any other member. He has the right to request any information whatsoever as to the use of the money that is being deposited in the Caisse etc.

Still more important is the fact that the grouping of the savings of all the individuals enables them to attain a certain economic and social emancipation especially for those who participate in the co-operative movement. In fact, if we consider that the French Canadian population is a minority with respect to all of Canada, and on the other hand mindful of the futility of any efforts that are not supported by the power of money, the French Canadian population in Quebec has, with modest means at its disposal, succeeded in grouping its savings in order to attain the present success of these Caisses Populaires.

We should stress the fact it is thanks to the encouragement and the effective support of the clergy that it was possible to attain the success. Without this unflagging co-operation the Caisses Populaires would not have survived the various difficulties that arose.

Another important factor is the factor which enabled all those who were connected with this movement to acquaint themselves with administrative matters which constitutes a certain enrichment in their own life -- in the management of their own affairs.

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You may think perhaps we are overlooking two important elements: The issuing of payment orders and the absence of taxation. The facts show that the development of these Caisses took place after 1945. Now, payment orders were circulating since 1939 and even before then. As to the absence of taxation, this has enabled the Caisse to set up the necessary reserve, a reserve which is required by any institution which holds deposits and which grants loans.

As you can see for yourselves, all these factors explain the great development of these great Caisses. We haven't gone into all the factors involved, but we have stressed those factors which we consider to be the most important, namely, to give to money its true role, namely, that of an instrument placed at the service of a community of man, and to confer upon each individual his dignity and his own pride, since it is the individual who is called upon to administer this enterprise for the benefit of the community and of the individual. This is the role of the Caisse Populaire.

COMMISSIONER LEMAN: I didn't realize I was raising such an important question when I made my remark, because this enabled you to make a rather complete statement of your views on the matter. You will note that I drew your attention to the statistics given on page 4, when I mentioned the income aspect of the activity of the Caisse, but we didn't give any attention to the expenditure side of the matter.

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Perhaps my slide rule is misleading me, but I notice from 1955 to 1960 the interest percentage on savings has increased.

MR. LAMARCHE: We don't deny it.

COMMISSIONER LEMAN: However, we should not completely overlook the monetary benefits obtained by the members.

MR. LAMARCHE: No sir, we are not overlooking this. We have included it as part of the conditions necessary for progress. However, our experience has proven that it is not interest rates which are an important factor in this matter.

COMMISSIONER LEMAN: Well, I have only one more question, sir. This matter concerns the interests of the Commission both with respect to co-operatives as well as with respect to commercial enterprises, namely, the manner in which the different groups react to the monetary policy of the country. What is important for us is to know how the mechanism operates. Could you tell us in your own words how your group reacts to the various monetary fluctuations with respect to different periods of time?

MR. LAMARCHE: Well, if you consider all the money in circulation in the country, for us who represent an organization of $58 million, it is not for us to set forth our views concerning the over-all economic policy followed by the country, but all we can say is that when the banks are affected by a policy followed by the country we also experience certain incidents, certain repercussions to a varying extent.

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This is all we can say with respect to this question of the general economic policy of the country. This is all we can say in view of the role that has been assigned to us and the limited time available to us.

COMMISSIONER LEMAN: Well, I should like to ascertain whether the influence you feel of this policy -- is this in relation to the policies that you have to follow with respect to the banks, or are you sensitive to fluctuations in interest rates in the money market? In other words, does a change in interest rate affect the volume of your business? That is the question I want to ask.

MR. LAMARCHE: No sir, it does not affect the actual volume of our business. Whether or not interest rates increase or decrease does not affect our position with respect to our members nor with respect to those who borrow from us.

COMMISSIONER LEMAN: Well, let us try to determine what the situation was in 1958, for example: If you refer to your statistics we see there is a certain pressure felt by the Caisse and by the federation at a time when there was a certain restriction in the money market. At that time there was a slight increase in the loans made by the Caisse from the banks. Didn't this cause people to come to you to a greater extent than otherwise?

MR.LAMARCHE: If you are trying to establish a causal relationship between the situation in 1957 and 1958, I don't believe such a situation did exist. Generally bank loans are granted to industry and

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commercial enterprises. As for us, we don't lend to commercial or industrial or financial groups. We lend only to our members. We make only personal loans, and in our Caisses since 1945 we have always had waiting lists for people who desired to obtain credit. I don't think the situation affected our Caisse Populaire during the period that you refer to.

COMMISSIONER GIBSON: Are you affected in your policies by changes in the level of security prices? In other words, when the bond market goes down and the market value of your security holdings is less than the book value, does this affect your lending policies in any way?

MR. LAMARCHE: No, I don't believe there is any relationship between these two factors, namely, the state of the bond market and the loans granted to members. Our purpose is not to make profit. If the interest rates are better, all the better; but, in any case, there is no change, there is no relationship, no causal relationship involved.

COMMISSIONER GIBSON: There have been no changes in your policy of lending money on mortgages?

MR. LAMARCHE: No. Obviously, if you go 15 years back, when the rates were about 5 or 5½ per cent, the Caisses have approached the general trends of the mortgage market, but our general principle is to lend at the prevailing market price.

COMMISSIONER GIBSON: That is a long-term tendency, but in the short-term a sharp change in interest rates would not affect you very much?

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COMMISSIONER GIBSON: That is a long-term tendency, but in the short-term a sharp change in interest rates would not affect you very much?

MR. LAMARCHE: No, I don't believe so.

COMMISSIONER BROWN: Carrying on the same line just a little further, you said you always have waiting lists for mortgages. However, I notice that on page 8 of your statistics that, in fact, the amount outstanding on mortgages went down in the last quarter of 1959 and then down again in the first quarter of 1960. Would this be because there was a slowing down in deposits?

MR. LAMARCHE: You have heard the proof that I have mentioned a few minutes ago -- one of the proofs: Namely, when the banking system is affected by a very accentuated monetary situation we experience the repercussions of this. At that time, 1959, our Caisse received instructions not to make mortgage loans. In September, 1959, this reveals an increase despite this fact, because in June for $20 million 900 thousand mortgage loans there was a figure of $2 million 494 thousand In any case, when a loan is promised to a member we have to keep our word, and these loans that were promised were indeed met, so that in December, you see, the recommendations that were made which were in line with the economic recession then prevailing began to cease to be operative because there was a reduction from $21 million 530 thousand, so that in June, 1960 we see that loans begin to increase after a recession period.

COMMISSIONER BROWN: Who issued these instructions that the Caisse were not to make any more mortgage loans?

MR. LAMARCHE: No, I don't believe so.

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COMMISSIONER BROWN: Who issued these instructions that the Caisse were not to make any more mortgage loans?

MR. LAMARCHE: Our federation -- the Montreal Federation of Caisses Desjardins instructed the caisses to stop mortgage loans, and this instruction was complied with by our caisses.

COMMISSIONER BROWN: On what did you base this decision, and did this instruction -- we might be losing something in the translation; it is translated as "instruction": Did this instruction carry any sanction with it or was it merely a recommendation?

MR. LAMARCHE: It was a recommendation. There was no sanction that would be applied. It was a recommendation.

COMMISSIONER BROWN: On what did you base the decision to make this recommendation?

MR. LAMARCHE: We were aware there was a recession and the banks were asked to limit credit, and we felt we might experience the effects of this recession, and to prevent such a situation, as soon as we were advised of this recession, and the fact it was more serious than the preceding one, we advised our caisses to be more cautious, and we issued instructions to halt mortgages until the situation should become normal again.

COMMISSIONER BROWN: This was based on the forecast of a recession. It wasn't anything to do with higher interest rates which, in fact, had taken place 12 months previously?

MR. LAMARCHE: No, this matter of higher interest rates was not involved. We simply felt that

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the 1929 crash would reoccur so we felt it would be better to be more prudent.

COMMISSIONER BROWN: We are delighted you were wrong -- so far, anyway.

THE CHAIRMAN: You mention at the beginning of your brief that you consider that you are subject to the provincial jurisdiction and not to the federal jurisdiction. We, of course, cannot decide that question, but we are interested in the features of your caisses -- the various banks, as you call them also, I think -- no: You are very careful not to do that. I am interested in what particular features of your operations make your operations distinguishable from banking within the meaning of the constitution? Is that clear or not?

MR. LAMARCHE: I haven't clearly understood the nature of your question. Would you be kind enough to repeat it.

COMMISSIONER LEMAN: What the chairman has asked is, what are the distinctive characteristics differentiating your operations from the operations of the savings banks, or even a mutual bank? What are those distinctive characteristics which make your bank different from a savings bank which does similar operations?

MR. LAMARCHE: Well, there are certain fundamental differences in the way of organization and structure, and in the way of operations and in the way of purposes.

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represents an organization of individuals rather than of capital. Evidence of this is that the capital, the founding capital has been reduced to the strict minimum. The law of unions states that 12 people may establish a caisse, and if each person holds a share of $5, the founding capital will amount to $60.

Secondly, the territory in which the caisse may recruit its membership is limited: Only people who live within the established territorial limits may become members of the caisse.

Thirdly, only members of the caisse can obtain its services, and in order to become members they must subscribe to part of the registered capital.

Fourthly, all members are co-proprietors of their caisse.

Fifthly, each member has the right to only one vote regardless of the number of shares he holds, and it is forbidden to vote by proxy.

Sixthly, each caisse is independent and has its own organization, it own parish organization.

The fundamental difference in structure is as follows: The caisse includes a board of administration, a loan committee and a supervisory committee. All these officials are elected by the members at a general meeting. None of these officials receives salary or dividends or any other remuneration whatsoever, except for the manager. Neither the loan committee nor the supervisory committee is subordinate to the board of administration. Each of these three bodies

represents an organization of individuals rather than of capital. Evidence of this is that the capital, the founding capital has been reduced to the strict minimum. The law of unions states that 12 people may establish a caisse, and if each person holds a share of $5, the founding capital will amount to $60.

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is subordinate to the general meeting of the members.

Registered capital is limited. This limitation has been established by the general meeting, and the responsibility of the members is limited to the number of shares that have been subscribed to.

Now, differences in operation: The caisses receives savings deposits but not deposits from industrial or commercial or financial groups. Also it grants loans but not to such groups. The caisse does not engage in discount operations and it does not operate any foreign exchange sections.

Now, the fundamental differences in purpose. The purposes are as follows: Assistance on the economic and social level, in order to enable the economically weaker individuals to group their savings and to use them in accordance with the needs of each individual, and by so doing to attain a degree of economic and social liberation that the individuals separately could not attain otherwise, and in so doing to open the way to credit facilities at reasonable rates in cases where such credits are generally refused to these individuals. Also to rehabilitate the human personality in considering him not by virtue of his wealth but by taking account of his moral value. To enable a group of people to become familiar with the administration problems regarding the monies deposited in their caisse, and to acquaint them with the administration of a budget and to promote the development of the necessary qualities required for savings and for the upholding of the obligations that have been undertaken,

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and to enable a group of individuals to devote themselves to the benefit of their fellow citizens by developing a sense of solidarity and mutual responsibility.

THE CHAIRMAN: Those are the various features. They are undoubtedly features that distinguish your operations from those of the chartered banks and the institutions that we are accustomed to call banks. I am interested to find out as much as I can through our hearings across the country as to what the views are of the various institutions which are not now regarded as banks but perhaps constitutionally would come under the bank section of the B.N.A. Act, and I have no answer to this problem -- if it does become a problem -- and I am very much interested in what you have to say about that, and I appreciate very much your answer to that question. It is very comprehensive and very full. As I understand it, the purposes of your institution are of a local nature, to begin with, and it is really a matter of property and civil rights rather than a business carried on for profit, and also for dealing with the public at large, largely including business and all sorts of activities who may wish to have their services. That is the main line of distinction as you see it. Now, whether that is the proper, legal distinction or not I am not in a position to say, and nobody so far has apparently dealt with that question, but we are very much interested in your views on it and the way you have put it.

We thank you Mr. Lamarche for coming here today and for the interesting information you have given us.

We will now adjourn until 9.15 A.M. tomorrow when we will have the submission of the Quebec Savings Banks.

--- Adjournment.

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Royal Commission on Banking and Finance

Hearings
held at
Montreal

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SUMMARY

I submit that small industry -- here defined as manufacturing and construction companies having combined debt and equity needs of less than $2 million -- does not receive the amount of financial support it needs and deserves.

This situation arises from the relative shortage of business development capital in Canada, as compared with other highly industrialized societies. It is aggravated by the tendency for the limited available supply of institutional and private funds to become channelled into major corporations, real estate, mining and other non-manufacturing enterprises.

Legislative measures have been taken in recognition of, and to alleviate, the scarcity of small industry development funds. These measures have proved, in practice, less effectual than might have been hoped by Parliament and the business community. They have been particularly disappointing insofar as companies having rapid growth or approaching major corporate status are concerned.

This brief makes reference to Trade Creditors, Insurance Companies, Finance Companies, Chartered Banks and Industrial Development Bank and the Public Stock Markets. Some lending practices and limitations of the Banks are examined and the following conclusions are drawn:

1. The Chartered Bank maximum lending rates are set too low to permit sufficient participation in development situations

This allocation arises from the relative

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[illegible]

It is occasioned by the tendency for the limited

available supply of institutional and private funds

to become channelled into major metropolitan areas.

[illegible]

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[illegible]

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[illegible]

[illegible]

because rapid growth of population in [illegible]

[illegible]

[illegible]

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[illegible]

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which, by nature, involve unusual risk and administrative effort.

2. The Small Business Loan Act needs more inducements for the Chartered Banks to extend its theoretical advantage to the business community.

3. The Industrial Development Bank is duplicating much of the service supposedly provided under the Small Business Loan Act, and failing to support adequately growing companies by way of debt and, more particularly, investment.

4. The small manufacturer needs better protection than is now provided in event of unscrupulous creditors' bankruptcy, and relief from the complexity -- if not the amount -- of corporation tax demands upon him.

It is therefore recommended that consideration be given to:

1. Permitting bank lending rates to approach 10 per cent in appropriate situations.

2. Encouraging small business investment by Industrial Development Bank, or through Small Business Investment Corporations along the lines of recent U.S. practice.

3. Making more frequent use of long-term bank debt wherever investment is desirable but impractical.

4. Providing more rapid and more imaginative aid in situations where prompt action is necessary to preserve the flexibility of small

business.

5. Undertaking a detailed study of the financial problems and needs of private corporations approaching, yet still too small to economically command the support of, public ownership.

These and other observations contained in this brief are submitted by the writer in his personal capacity as private consultant to small industry. There is no actual or implied sponsorship or identification with other groups or individuals. Nevertheless, similar views are believed to be held unspoken by many small industry principals.

BRIEF

It is generally agreed that establishment of new, and continuation of existing, secondary industries in Canada is desirable. They contribute to employment, help to reduce the international trade deficit, convert some of the nation's abundant raw material supply and lend stability to the economy. Geographic and population factors to some extent limit the types of secondary industry which the country can support with advantage. Nevertheless, many desirable avenues for increasing exports and/or reducing imports remain unexplored or undeveloped. Lack of sufficient capital is one important reason why this situation prevails.

The United States and some other nations are more liberally endowed with risk capital than is Canada, because of their broader and older established industrial base. Appreciable quantities of their "surplus" capital are invested in Canadian primary industries. Unfortunately, only tariffs provide incentive for foreign investment in secondary industry as such action may tend to reduce demands on conversion plants already owned and operated in other lands. Thus secondary manufacturers can only look to domestic sources for the financing required by their operations. Such factors as limited disposable income, and taxation policy slow the rate of private capital accumulation and compel industry to use substantial amounts of debt in place of equity to complete its capital structure.

The use of debt requires security based on

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The [illegible] of debt [illegible] [illegible]

proven earning power and fixed assets. Small and especially new manufacturers naturally have more difficulty meeting these criteria than do larger or older established organizations. Yet often the relatively light demands of small manufacturers are more vital to them and, if satisfied, may well prove to be the most rewarding to the long range national interest.

Small industry -- which for this purpose is defined as manufacturing and construction enterprise unable to command financial support through the public stock market at economical costs -- may have justifiable combined equity and term debt needs approaching $2 million. The first is difficult to attract or generate and the second may be prohibitively expensive. This is more particularly true as the requirement passes say $250,000 and may account for the number of growing concerns that fall prey to certain promoters with little interest in corporate well-being.

The current financing position of these companies is usually strained because cash generated from operations is largely expended on necessary fixed asset acquisitions and/or debt retirement. Short term creditors are, therefore, asked to "overfinance" current assets. The ceiling set on chartered banks' lending rates undoubtedly lowers their "resistance point" and trade creditors have to set tight limits in order to preserve some degree of liquidity for themselves.

The outcome of this type of "thin equity" financing is the high leverage unintentionally enjoyed

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by many small industrial principals. Leverage, so high in fact, that they willingly part with much of this advantage by paying interest rates of 18 per cent or more on short to medium term credit. These borrowings with their too high interest rates and rapid repayment terms injure and sometimes "kill the goose that lays the golden egg".

The nature of successful industrial enterprises is to require capital growth at the same or greater rate than, and always in advance of, production increases. Large capital outlays are generally necessary prerequisites to notable increases in output or earnings. Financing difficulties may slow up or indefinitely postpone desirable expansion.

New companies starting from the grass roots of a sound product, technical proficiency, strong ambition and adequate administrative ability are further handicapped unless the principals are unusually well placed in terms of available investment funds. Their organizations lack proven earning power and special equipment needs may consume all available monies leaving nothing for operating capital or vice versa. Outside equity is difficult to attract because the sources are unknown (or wholly committed to real estate speculation) and, too often, because the cost of such outside support is too high to the extent of control transfer such equity can command.

Those new industries which manage to create new markets, using term debt, are frequently compelled to confine their asset programmes and operations to a

low level where, at best, progress is slow or, worse, activity is at uneconomically low levels. Meanwhile, larger corporations may take over the newly developed volume markets which the smaller have created but cannot satisfy.

Product development by small companies for sale of manufacturing rights to major producers may be desirable. Unfortunately, the possible economics of this arrangement are negated by the fact that the development company's earnings are erratic unless a steady product flow is retained and this kind of financial picture attracts little equity investment and commands practically no debt support. There being neither inventory or receivables of consequence nor common purpose fixed assets to support conventional mortgages.

The prospect of capital gain with attendant tax advantages, stimulates some private investment in industry but, apparently, offers insufficient inducement to attract more than a small portion of the amount needed. Moreover, the limited funds that do exist tend to pass into well established corporations because of the restrictions set upon -- or within -- insurance companies and similar institutions.

The lending activities of chartered banks are somewhat restricted by internal policy and the Bank Act. Short/medium term debt requirements have been filled to some extent by equipment finance companies and the like. The latter's contribution to industrial advancement in recent years is undoubted.

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They must, however, loan funds at interest rates sufficiently high to cover operating expenses and, of course, earn a satisfactory return for the risk taken. These rates, when coupled with short repayment periods, tend to cause heavy cash outflows from manufacturing operations and compel continuous re-financing, thereby negating much of the apparent advantage of this form of debt.

It is presumed, from the Industrial Development Bank, Small Business Loan and associated Acts of Parliament, that enlightened economic and political opinion has recognized the need and justification for supporting small business. Appropriate legislative measures have been taken with the result that -- on paper -- Canada probably has advanced further than any other nation in fostering small business opportunity, with the possible exception of U.S. Small Business Investment Corporation activities since 1958.

The practical application of government legislation has also set an example that such groups as the U.S. Small Business Administration and British Finance Corporation for Industry and Commerce might well emulate. Nevertheless, international leadership should be a stimulus to further advances, not a justification for leaning on laurels earned. In the writer's opinion, some of the legislative enthusiasm has died or been extinguished at the level of positive action by unforeseen and as yet unresolved problems or by policy restrictions created by authorities responsible for putting the legislation into effect.

Without judging the correctness of interpretation or policy decisions, I would venture to say that a notable segment of the business community is confused. Not because of a continuous movement of policies in one direction but because of vacillation evident from a proprietor's personal experience or from press comments, on changes in lending policy.

Small manufacturers seldom are able to undertake necessary long term planning and, when they do, assurance of future capital availability is not forthcoming. The distant future is, naturally, less clear than the near present. This does not justify, however, the common situation where a company principal can be progressively less sure of future relations with:

(a) Trade Creditors
(b) Equipment Suppliers & Financers
(c) Chartered Banks
(d) Industrial Development Bank
(e) Investors

Manufacturers have personal experience in both giving and receiving trade credit and can forecast trade behaviour fairly accurately. The sale profit motive evident here carries through to equipment suppliers and finance companies, making their action predictable to some extent.

Chartered banks not only are, by nature, more austere, but also their quick response to so-called general "tightening" of credit can be most disconcerting. The poor initial output of Small Business Loans, which they administer, hardly justifies the high hopes which

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many businessmen held for this legislation.

The Industrial Development Bank has periodic bursts of enthusiasm, then reaction, which may thoroughly confuse a businessman with dual interests, only one of which can obtain support, because separate loan applications were made at different times in the pendulum swing. Also, he may believe a less worthy competitor is being "subsidized" with assistance which he himself has been refused.

Finally, investors are expected to remain impulsive, as evidenced by the current popularity of junior industrial stock issues. Investors are also scarce.

There are many existing and potential industries that lack the finances they deserve. Also, there are many that do not make profitable use of monies available to them. It is desirable that some method be devised for gearing availability of capital directly to a company's return on capital structure.

Some proprietors overestimate their own relative merits and contribution to prosperity. Conversely, they are entitled to more non-financial considerations such as reductions in questionable income tax and bankruptcy policies and political patronage.

To protect the flexibility of small business it is also very desirable to speed the processing of debt arranagments, which from the viewpoint of many Small Business Loan and Industrial Development Bank applications leaves much to be desired. There is a danger that protracted negotiations will cause an applicant to miss a worthwhile

[illegible] application.

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will [illegible]

opportunity or accept whatever is eventually offered, rather than disclose an intelligent change of plans and needs at the risk of undergoing further delay.

The proportion of repeat Industrial Development Bank borrowers, 22 per cent in 1961 could be indicative of their success and satisfaction with this source of financing. Conversely, it may mean that borrowers have to return on account of inadequate financing in the first instance because loans, which must be retired in a few years, are being made where investments would be more appropriate to companies' growth needs.

Arrangements for blended interest and principal payments should more frequently be made available to I.D.B. borrowers, at least for land and building programmes. Not only is this a commonly used and better understood industrial practice, but it also goes some way towards recognition that physical facilities are generally and properly purchased oversize for immediate requirement and only enter the stage of full utilization and profitability in the latter years of their life.

The average amount owed per I.D.B. customer has declined rapidly from $94,000 in 1956 to $56,000 in 1961. Assuming the amount owed is in the neighbourhood of 50 per cent of the depreciated value of customers' fixed assets, one might infer that the average customer has fixed assets worth just over $100,000. Many single items of equipment could cost this much, as would just 20,000 sq. ft. of unequipped building.

The average amount of I.D.B. loans authorized

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The average number of I.D.B. loans annually [illegible]

in fiscal 1961 was $52,000. In fact, 45 per cent of all loans made in that period were below the $25,000 upper limit of the Small Business Loans Act. These figures hardly suggest that this source adequately caters t o the needs of companies attempting to bridge the gap between the smallest proprietorship and the publicly owned corporations.

Distribution of the limited equity and debt financing is largely determined by a Risk/Reward equation. If the Reward (interest adjusted for expenses and losses) is fixed arbitrarily then must the maximum debt financing available be limited by considerations of security (including equity) and earning power. As the Chartered Banks and Industrial Development Bank interest rates are circumscribed it follows that the Risk component of the formula must be held down unless a greater risk is assumed by finance companies at interest rates three or more times higher. The broad field between these two extremes is practically unexplored. It is surely desirable to fill this gap if companies are to avoid the opposing dangers of uneconomically small asset programmes or prohibitively high interest costs.

Many companies have worked their way from high interest financing to a lower level. Both lenders and borrowers should be congratulated for making this desirable transition possible. Nevertheless, it would seem desirable to ease this process by enlarging the range of finance company and bank interest rates so that they meet -- comfortably -- at about the 10 per cent

level.

Recognizing the fact that businessmen prefer to pay higher interest rates as the security risk of their proposals increase, rather than arbitrarily reduce the risk (programme) to fit a rate in the region of 6 per cent; it is suggested that the chartered banks and the Industrial Development Bank be permitted to charge higher rates. The latter should also be prepared, in practice, to lengthen repayment terms to provide a better substitute for the investment they seem unable to make in more than a very few cases. This action would necessitate more frequent supervision of accounts, which is both desirable and economically feasible if the cost is reflected in the interest rate.

It takes many years for even very profitable small manufacturers to build up a net worth of $1 million, if term debt servicing consumes all depreciation. Meanwhile, corporate taxes of almost the same amount have been paid and employment has been given to many people. I submit that Canada can ill afford slow industrial development caused by inadequate supplies of loan and investment funds; moreover, these should be made available to hasten the growth of small manufacturers who can use them profitably.

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La Federation de Montreal des Caisses Desjardins and the Casses Popularies which are affiliated to it are governed by statutes of the Province of Quebec which are cited under the title of "An Act Respecting Co-operative Syndicates".

To avoid ambiguity, we are permitting ourselves at the outcome of this brief to affirm that the organization which we represent is a savings and credit co-operative related exclusively to provincial jurisdiction. Consequently, our participation must not be considered as an acceptance of the jurisdiction of the Commission on the activities of La Federation de Montreal des Caisses Desjardins but as an expression of our desire to furnish the Commission with information which will enable it to complete the studies which it is undertaking.

1. Introduction

After Mr. Alphonse Desjardins had founded the co-operative movement by the formation of two Caisses Populaires at the beginning of the 20th Century, the Provincial Legislature of the Province of Quebec enacted in 1906 the first act governing co-operative syndicates in the Province of Quebec. The development of the co-operative movement and the increase in the number of Caisses Populaires necessitated the grouping of these units into a Federation.

For a long period of time, all of the Caisses Populaires Desjardins were affiliated in a single federation known as "La Federation de Quebec des Unions Regionales des Caisses Populaires".

2. <u>Origin</u>

On the 12th of November 1945, eight Caisses Populaires of the diocese of Montreal separated themselves from La Federation de Quebec and founded La Federation de Montreal des Caisses Desjardins.

Two principal motives were the cause of the foundation of this new Federation.

These Caisses were convinced that decentralization would better serve the ends of the co-operative movement, and further, they were all opposed to the extension to the movement on a national basis.

By this decentralization, they could obtain a more uniform composition, and the new federation would answer the needs of a specific region. Secondly, the internal administrative problems related to inspection influenced the Caisses to form the new federation.

3. <u>Caisse Populaire</u>

The Caisses Populaires constitute the elements of a federation. We feel it necessary that a close examination be made of the functions of credit and savings syndicates and that their essential characteristics be explained.

A. <u>Shareholders</u>

We term the shareholders the members of a Caisse Populaire who have purchased a share or shares of its capital. Like all co-operative organizations, the Caisse can only exist through the medium of shareholders; in fact, the statutes oblige the Caisse

to deal only with members and therefore only those persons who have been accepted as shareholders can avail themselves of the benefits and other advantages of the Caisse Populaire.

The Act respecting co-operative syndicates and the by-laws of Caisses determines the conditions of membership. It should be noted that it can only be composed of persons who have their residence within the syndicate's legal territory. Each member must purchase at least one share valued at $5.00 and all members or shareholders are responsible for any debts of the Caisse up to the amount of its shares paid up or subscribed. In order to promote economy amongst school children, this regulation has been waived for them: The caisses accept their savings deposits without asking them to subscribe to share capital. The by-laws provide for two categories of shareholders. The first is composed of persons who are capable of contracting and who have their residences in the syndicate's territory. These members are the only members who are allowed to participate in the general meetings of the Caisses Populaires. It is important to underline the fact that the right of vote is accorded to a member because he is a shareholder and is not based on the amount of shares which he holds in the organization. The second category of shareholders is designated as auxiliary members, comprised mainly of minors, married women, and members who no longer live within the territorial limits of the Caisse.

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The Act respecting co-operative syndicates and the by-laws of Caisses determine the conditions of membership. It should be noted that it can only be composed of persons who have their residence within the syndicate's legal territory. Each member must purchase at least one share valued at $5.00 and all members or shareholders are responsible for any debts of the Caisse up to the amount of its shares paid up or subscribed. In order to promote savings amongst school children, this regulation was [illegible] for them: the caisses accept their savings deposits without asking them to subscribe to or pay capital. The by-laws provide for two categories of contributors. The first is composed of persons who are capable of contracting and who have their residence in the syndicate's territory. These members are the only members who are allowed to participate in the general meetings of the Caisse Populaire. It is important [illegible] on a [illegible] membership is not based on the amount of shares which one holds in the organization. The second category of contributors [illegible] [illegible] [illegible]

subscribe to the capital of the organization, they are not allowed the right to vote at the general sessions of the organization. They are also not eligible for election to the Board of Directors and the Credit and Supervisory Committees.

The active members who have a right to vote elect, from the ranks of the shareholders, those who will be members of the Board of Directors, Credit Committee and Supervisory Committee. None of the officials selected for these various committees receive any remuneration. The only individual who receives a salary is the Manager of the Caisse, selected by the Board of Directors, within its ranks.

B. Organization

(a) Board of Directors

The shareholders must elect a Board of Directors, and the members for this board are chosen from among the ahresholders and should compose a group of not less than five individuals and not more than thirteen individuals. The members of the Board of Directors are elected for a period of three years, with staggered terms. They can be re-elected.

We find that the obligations and powers of the society are explained in the Act respecting co-operative syndicates. By and large, all matters not explicity referred to the Credit or Supervisory Committee by the Act or the by-laws all come within the jurisdiction of the Board of Directors, which is responsible for the good administration and the growth of the society. It has full jurisdiction on such matters as the hours

of operations, the hiring and the setting of salaries for various employees, and all other administrative problems. The Board in the exercise of its jurisdiction, can approve new members for admittance to the organization and can regulate the transfer or withdrawal of shares. The Board determines, within the limitations of the Act, the manner in which to utilize the surplus funds and suggests at the annual meeting the distribution of profits in dividends and rebates. The Board is also responsible to fill in any vacancies that occur in any of the committees during the year. Finally, the Board of Directors is responsible for the administration of the Caisse Populaire as prescribed by statute and the by-laws of the Caisse or the regulations of the Federation to which the Caisse is affiliated. In order to accomplish more efficiently the tasks assigned to the Board, an executive committee is formed and is composed of a President, a Vice-President, a Secretary, and the Manager of the Caisse. By virtue of the extensive authority vested in the Board of Directors, it is responsible to the shareholders for the success or the failure of the enterprise and the law states that the members of the Board will be held personally responsible for any violations or infractions as designated within the statute.

(b) Credit Committee

We have already underlined that the Caisses Populaires are a co-operative credit and savings unit. One of the essential aims of the movement is to furnish

of operations, the hiring and the setting of salaries for various employees, and all other administrative problems. The Board in the exercise of its jurisdiction, can approve new members for admittance to the organization and can regulate the transfer or withdrawal of shares. The Board determines, within the limitations of the Act, the manner in which to utilize the surplus funds and suggests at the annual meeting the distribution of profits in dividends and rebates. The Board is also responsible to fill in any vacancies that occur in any of the committees during the year. Finally, the Board of Directors is responsible for the administration of the Caisse Populaire as prescribed by statute and the by-laws of the Caisse or the regulations of the Federation to which the Caisse is affiliated. In order to accomplish more efficiently the tasks assigned to the Board, an executive committee is formed and is composed of a President, a Vice-President, a Secretary, and the Manager of the Caisse. By virtue of the extensive authority vested in the Board of Directors, it is responsible to the shareholders for the success or the failure of the enterprise and the law states that the members of the Board will be held personally responsible for any violations or infractions as designated within the statute

(b) Credit Committee

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its members necessary credit which they are unable to obtain elsewhere or by any other manner. This credit is given in the form of loans and this matter is left to the sole decision of the credit committee. The shareholder who wishes to obtain a loan must make application to the credit committee. The credit committee is composed of three members, and these are elected at the annual meetings of the association. The members of the committee are generally elected for a period of three years with staggered terms. It should be added that the Manager of the Caisse fulfills the role of the Secretary on the Credit Committee. The loan is usually granted in the form of hypothec on real estate, or of promissory note. The maximum amount to be made available for personal loans is determined at the general assembly meeting. However, in practice, it does not exceed $2,000. The members of the credit committee are the only individuals who can accept or refuse a request for the loan and that decision is based on the purpose of the loan, the character of the borrower, and his financial situation, as well as the other factors required to assess the risk. When the loan requested is in the form of a hypothec on property it is necessary that the credit committee visit the property concerned in order to determine its actual or market value. The manager must arrange for the shareholder to prepare a questionnaire on his complete financial situation and the evaluation of the property being considered for hypothec.

Members of the Credit Committee are responsible

s members necessary [illegible]

[illegible]

[illegible]

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for determining the rate of interest for each loan and also the method of repayment. The Committee is also responsible for the assurance that all borrowers are fulfilling their obligations to the Caisse regarding their loans. In the case of any shareholder defaulting in the repayment of his loan, the Committee will refer the matter to the Board of Directors, if all efforts have failed to arrange for the repayment of this loan. It will be up to the Board of Directors to decide on the method of recovery for the funds outstanding.

Generally, it can be stated that the Caisses have never sustained any losses as a result of loans for hypothecs or for loans guaranteed by collateral. The losses which have resulted from personal loans represent such a small portion of the business carried out by the various organizations that they are really not worth mentioning, and are usually absorbed by current income, sometimes by the reserve fund. Some Caisses Populaires have established a contingent liability fund to guard against possible losses of loans. In view of the role of the Credit Committee, the Act and by-laws do not permit any of the members of the Committee to borrow funds for their own personal purposes or to endorse any notes on behalf of any of the shareholders.

(c) Supervisory Committee

This third Committee provides the shareholders with an instrument with which to scrutinize the work of the Board of Directors and the Credit Committee to ensure that the affairs of the Caisse are conducted

in accordance with the wishes of the general meeting and also in accordance with the regulations as prescribed. The three members of this Committee are elected in the same manner as the members of the other Committees by a meeting of the General Assembly. In the exercise of their general duties, members of this Committee are responsible for the examination of the books of the Society from both an administrative and financial point of view and to arrange for the annual examination and audit of the operations of the Caisse by the regular inspectors of the Federation to which the Caisse is affiliated.

The Supervisory Committee must notify the Board of Directors in writing of any irregularities which it has detected and also inform the Board of adequate measures which should be taken to rectify the shortcomings. If action is not taken immediately to rectify these discrepancies, the Committee has the authority to call a general meeting of all shareholders in order that appropriate decisions may be made in regard to these matters. When the situation warrants it, the members of the Supervisory Committee have the authority to suspend any employee of the Caisse or any members of the Credit Committee. In these circumstances, the Committee should call an urgent meeting of all shareholders in order that the matter may be fully discussed.

Similarly to the members of the Credit Committee, the members of the Supervisory Committee are not allowed to borrow funds or to endorse any notes

on behalf of the shareholders.

Shareholders, Credit Committee, Supervisory Committee, Board of Directors, such are the essential elements in the organization of the Caisse. In order to permit these various groups to obtain maximum efficiency in the performance of their respective roles, the Federation plays a most essential part as a technical counsellor to these various bodies. In a further chapter of this brief, we will describe the functions of the Federation, and how it proceeds to fulfill its role without impairing the autonomy of the Caisses.

C. Operations

Essentially, the Caisse Populaire receives from its operations the necessary funds which permit it to lend money to the shareholders and to realize benefits which are redistributed in the form of bonuses on share capital, interest on savings and rebates of interest on loans.

Share Capital

We have already seen that each member is obliged to purchase at least one share of capital in the Caisse. This subscription demands an entry fee varying from $0.10 to $0.60 a share, that goes into the reserve fund. The maximum number of shares which may be held by any shareholder is determined at the annual meeting and this amount may vary from 50 to 600 shares. This is usually established as a percentage of the capital in relation to savings. In general, the number of shares usually represents from

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[illegible]

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[illegible]

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[illegible] of the

5 per cent to 10 per cent of savings.

Savings

Conscious of promoting thrift amongst its members and in order to cater to the various financial situations of its members, the Caisses Populaires affiliated in the Federation de Montreal have established four categories of savings accounts.

1. Regular savings accounts. These accounts are subject to withdrawals on orders of payment and accrue interest at the rate of 3 per cent.
2. Special savings accounts. These accounts demand, in certain cases, a minimum deposit and are not subject to withdrawals by orders of payment. The interest payable on these accounts may vary from 4 per cent to 5 per cent.
3. School savings accounts for the benefit of school children. The funds are collected in the local school and are deposited with the Caisse afterwards.
4. Term Savings Accounts without withdrawal privileges, including trust funds for endowment purposes, etc.

With the money received from its members, the Caisse loans, in accordance with the limits permitted under the regulations, necessary sums to its members.

Loans

We have seen in the chapter relating to the credit committee that two types of loans are available from the Caisse to its members, and these are the

personal loans on promissory notes and loans made in the form of hypothec on property.

It should be indicated here that property loans are normally granted for from 50-80 per cent of the actual value of the property in question. The hypothec loan being made to the benefit of the shareholder, he is always allowed to effect repayment in whole without indemnity when his financial situation permits him to do so. Partial payments are made on a monthly basis and, in certain cases, on a three-month basis. The normal duration for a mortgage loan varies 3-5 years, although the periodic payments are calculated on amortization periods ranging from 10-15 years.

With regard to personal loans, these may be described in the following four categories:

1. A loan covered by a promissory note with or without endorsers;
2. A loan which is guaranteed by securities as described in Section 40 of the Act;
3. A loan which is guaranteed by shares in the Caisse and;
4. A loan which is guaranteed by money in a savings account.

The rate of interest varies from 6 - 9 per cent per annum on the balance outstanding each month.

This same rate of interest is applicable to hypothec loans; however, it should be pointed out here that this amount includes the premium for life insurance for the value of the loan in question. The maximum amount of insurance obtainable is $10,000.

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on amortization periods ranging from 10 to 15 years.

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described in the following three categories:

A loan secured by a chattel mortgage, or

[illegible]

A loan which is guaranteed by a co-signer

as described in Section 10 of the Act,

a loan which is guaranteed by shares in the

[illegible]

A loan which is guaranteed by salary loans

[illegible]

The rate of interest on these loans is 6 - 9 per

cent per annum on the balance outstanding each month.

This rate, while not different in each instance

in hypothec loans, it should be pointed out

[illegible]

[illegible]

The Caisse has taken advantage of this scheme for the benefit of the member concerned as well as for the benefit of his heirs.

Investments

After having satisfied the loan demands of its members and also being assured that sufficient funds are available for the daily operations of the Caisse, it is authorized to make the following investments in accordance with Article 40 of the Act respecting co-operative syndicates. An extract of Article 40 reads as follows:

> "All the investments by such credit associations must be made in stocks or debentures of the Dominion of Canada or the Province of Quebec or expressly guaranteed by the Dominion or the Province or in the loans of any municipality or of any school corporation in this Province, or in duly authorized loans for the erection or repair of churches, presbyteries, or cemeteries in this province, or in the loans of fabriques or ecclesiastical, or religious corporations in this Province, or in real estate of this Province, or on a first privilege or first hypothec to an amount not exceeding three-fifths of the municipal evaluation of real estate effected."

All of these investments are submitted to the Federation for prior approval and, with the exception of debentures of the Dominion of Canada, these do not exceed a period of ten years before reaching maturity.

The Caisses vary their holdings in the selection of investments which provide the best return and also careful attention is paid to the various maturity periods. The majority of bonds which are purchased are retained until maturity has been reached and these are accounted for by quoting the actual cost price, plus the interest which has accumulated. All in all, the Caisses have attempted to establish a series of monthly maturity dates which assure a more satisfactory liquid reserve.

If the bond or security is acquired at a discount, it remains unchanged until its date of maturity or until the date of it s sale. If a profit is, thus, realized, it is accounted for as capital gain. If such a bond or security is purchased at a premium, the premium is amortized over the period of years to the date of maturity.

The general revenues of the Caisses serve to cover administrative operating expenses, the interest on deposits, and contributions to the various reserve funds. Any balance left over is distributed to the shareholders of the Caisse in the form of a bonus on capital holdings and also as rebates on loans.

Reserve Funds

The Act respecting co-operative syndicates stipulates that the credit association shall apply a percentage of its net annual profits to a creation of reserve and contingency fund to cover certain possible losses whether ordinary or extraordinary during the course of the year, and to make possible

a distribution of bonuses to shareholders even if at the end of the year's operation, no profit is shown by the organization.

Article 39 of the Act governing the co-operative syndicates and Articles 47 - 51 of the Statutes of the Caisse outline the mechanism for the operation of these two funds.

Security

The Caisses affiliated in the Federation de Montreal are all equipped with safety devices to guard against loss by theft as well as by loss by fire. Steps have been taken to provide the shareholders with a reasonable degree of security for their savings entrusted to them.

At the administrative level protection of the shareholders is assured by the built-in internal controls of the Caisse as this was explained previously in this brief. In addition, the Caisse holds an insurance policy with full coverage against fraud and theft and also to cover other irregularities.

Characteristics

We now have a better understanding of the essential characteristics of the Caisse Populaire in regard to its constitution, methods of operation, and the objectives which are pursued. The Caisse is primarily a group of individuals who wish to help themselves in an economical and social manner. To achieve this, these individuals pool their savings to constitute a common capital to provide them with benefits which they could not obtain all alone.

[illegible]

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Each Caisse Populaire, an association of persons and not of capital, has its own separate entity and its activities are actually restricted to a territory which has been determined in accordance with the Statute. The structure of the Caisse is essentially based on the function of service to the members. This is the basis of this unique characteristic; one man, one vote. For the same reason vote by proxy is not allowed.

A co-operative syndicate, the Caisse Populaire, deals only with its members and the operations are mainly in the field of savings and credit. Credit is available to its members in the form of personal loans and of hypothec loans. Special emphasis is put on the moral character of the borrower. The Caisse does not provide loans when the collateral is a sales contract or a discounted note.

The shareholders do benefit from one additional service, and that is the withdrawal of savings by orders of payment. Data gives evidence that less than one withdrawal cheque a month is made by a majority of shareholders, (see statistics of the Caisses on page 12 of the supplement to this brief). It should be noted that the statistics apply only to the Caisses affiliated in the Federation de Montreal and it should be further noted that these Caisses are all located in the largest metropolitan area of Canada. In these circumstances, it is quite evident that the rate of turnover of savings in the Caisses is not even remotely comparable to the volume of cheques drawn on banks.

We have taken a great deal of time to explain that the Caisse Populaire has been formed without profit motives and that its operations are undertaken for the sole benefit of its shareholders in the form of interest, bonuses and rebates on loans, all subject to personal income taxation. Furthermore, the shares which have a fixed value of $5.00 are not subject to any fluctuation. This means that a shareholder who has one or many shares in the organization cannot speculate on the possibility of making non-taxable capital gains. The main difference between the Caisse and other financial institutions is the fact that the Caisse is a plan formulated on the basis of providing the best service for the individual and his family within the parish level, whereas other institutions are primarily interested in Commerce and Industry.

4. Federation

The federation is an organization which was formed by the Caisses Populaires in order to provide a coordinating body for them in their operations. While each Caisse preserves its autonomy within the chapter, the federation does provide the guidance insofar as is applicable to the operations of co-operative syndicates; and further, it is in a position to keep abreast of important developments in the co-operative field.

The Federation de Montreal des Caisses Desjardins, was founded on November 13, 1945, and at the origin, it involved eight Caisses Populaires. The federation now counts a total of twenty-two Caisses, all situated

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within the diocese of Montreal, with a total of assets of $58,411,493.97. Please refer to statistics on pages 2 and 3 of the supplement.

(a) Organization and Structure

The regulations provide for three principal bodies in the structure of the federation.

Firstly, the Caisses within the federation nominate delegates which form the Congress. This congress plays a similar role to the annual meeting for the individual Caisses, being composed of delegates of all affiliates. The administration of the federation is controlled by the Central Committee, and this Committee is composed of nine members elected by the congress on a simple majority for a period of three years. Article 29 of the regulations of the Federation de Montreal des Caisses Desjardins describes the powers of the central committee.

In order to assure that the decisions taken by the central committee are properly carried out, this committee selects, from within its ranks, an Executive Committee which comprises a president, vice-president, secretary-general, and two other members, all of whom are nominated for a period of one year.

(b) Activities and Aims

To achieve its aims, the federation performs many tasks and initiates various undertakings, particularly those of assisting and counselling the committees operating in the Caisses to perform their tasks with efficiency. Another important role of the federation is to enlarge upon the achievements of the

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Caisses Populaires through a planned programme of public relations and information. The federation also carries on a training programme for managers and members of the various committees within the Caisse. This is achieved by providing text-books, manuals, and operational circulars; by organizing lectures and study groups, so as to propagate sound principles of efficient administration.

One of the principal functions of the federation is to provide a complete inspection service which permits it to verify the operations of each individual Caisse. A team of auditors under the direction of the secretary-general of the federation is responsible for accomplishing this task.

Each year, the inspection programme is completely reviewed in order to make any changes considered necessary to promote a more efficient system; moreover, the members of the inspection team are rotated in order to assure that verification is carried out in the most thorough manner. Once an inspection has been completed, a written report is prepared and this is forwarded to the chairman of the Caisse concerned. A copy of this report is also forwarded to the members of the Board of Directors and credit and supervisory committees. The chief inspector for the federation prepares a monthly report in which he cites any discrepancies which have come to light as a result of inspections carried out by his staff, andthis matter is then taken up by the central committee of the federation in order to decide on adequate measures to be taken to rectify

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these discrepancies.

The federation has an arrangement with the Banque Provinciale du Canada to provide the clearing of shareholders' orders of payments for all the Caisses who form part of the organization. All Caisses affiliated may call on the federation when they have special problems that need the assistance of administrative, legal or accounting experts.

(c) Financial Arrangements

In order to cover the costs of the various services which have been described and performed by the federation, it has set up two distinct funds, built up, one by term deposits, and the other by demand deposits.

Article 20 of the regulations of the federation provide for the constitution of these two funds, as follows:

Article 20:

(The substance being):

"Fonds a terme" receives term deposits equal to 3 per cent of deposit liabilities of affiliated Caisses at November 30 preceding year; these deposits are not withdrawable, except for yearly adjustment, are invested up to 50 per cent in marketable securities and up to 50 per cent in mortgages. They accrue interest at the rate of 2½ per cent. This fund, together with an annual assessment on affiliated Caisses, pays for the inspection, education and secretariat services of the federation; yearly, deficits or surpluses of the fund are taken care of by

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a rebate of assessment or an additional assessment, prorated on the basis of the average total assets of each affiliate.

The "fonds a vue" receives demand deposits of affiliated Caisses, being their surplus cash, with balance at least sufficient to cover their daily clearings, and are invested in marketable securities. They also accrue interest at the rate of 2½ per cent. This fund pays for the expenses of the clearing operations. Yearly, deficits or surpluses are taken care of by rebates or special assessment, prorated on the basis of the total number of items cleared on behalf of each affiliate.

The assets of the "fonds a terme" may be pledged as security for borrowings required in the operations of the "fonds a vue".

Capital gains of both funds are not included in operations but directly affected to "securities valuation reserve", each affiliated Caisse however, being credited with its proportionate share of such reserve.

The main difference between the Federation de Quebec des Unions Regionales des Caisses Populaires Desjardins, and the Federation de Montreal des Caisses Desjardins is that the Montreal federation does not accumulate any reserve fund and that it performs its services on an actual cost basis. Any surplus resulting from the operations are returned to the various Caisses affiliated to the federation and are pro-rated in accordance with their participation in

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[illegible]

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The [illegible] of this "[illegible] [illegible]" [illegible] be pledged as security for borrowings [illegible] to the operations of the "[illegible] [illegible]".

Capital gains of [illegible] are not realized in operations but directly attributed to "securities valuation reserve", each affiliated [illegible] being credited with its proportionate share of such [illegible].

The [illegible] difference between the Fédération de Québec [illegible] [illegible] [illegible] Caisses Populaires Desjardins, and the [illegible] [illegible] Montreal des Caisses Desjardins is that the Montreal Federation does not [illegible] any [illegible] [illegible] [illegible] [illegible] its services [illegible] [illegible] basis, any surplus resulting from its operations are [illegible] to the various Caisses affiliated [illegible] [illegible] [illegible] are prorated in accordance with their [illegible] [illegible]

in the various funds.

Summary

The Caisses Populaires play an important role in the lives of all individuals making up their membership.

The activities of these institutions supplement those of the banks whose primary aims are the promotion of commerce and industry. These two organizations complement each other and both perform a necessary function in our society. When each one remains in its field of activity and restricts itself to the type of customers assigned to it by its structure and its Act, there should not be any competition; all to the contrary, these two organizations complement each other and this should be beneficial to the nation.

THE BANKS HAVE AN INTEREST IN THE EXISTENCE OF CAISSES POPULAIRES.

THE CAISSES POPULAIRES HAVE AN INTEREST IN THE EXISTENCE OF THE BANKS.

THE GENERAL PUBLIC HAS A NEED FOR BOTH OF THESE INSTITUTIONS.

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Société régie par la Loi des Syndicats
coopératifs de Québec

1681, rue Parc Lafontaine

MONTREAL

STATISTIQUES DES CAISSES AFFILIEES

PRESENTEES A LA COMMISSION ROYALE D' ENQUETE

SUR LE SYSTEME BANCAIRE ET FINANCIER

MONTREAL, le 13 avril 1962 -

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1.- Classification des Caisses selon leur actif au 31 décembre:

	Nombre de Caisses (1)	Nombre de sociétaires (2)	Actif total (3)	% de l'actif en placements (4)	% de l'actif en prêts (5)
1950					
Caisses rurales:					
(1) Moins de $500,000 -	2	1,638	$ 648,682.09		
(5) Sous-total -	2	1,638	648,682.09		
Caisses urbaines:					
(6) Moins de $500,000 -	3	2,202	872,512.91		
(7) 500,000 - 1,000,000 -	2	3,149	1,349,492.29		
(8) 1,000,000 - 5,000,000 -	3	11,834	7,707,170.40		
(10)Sous-total	8	17,185	9,929,175.60		
(11)Total (5)+(10)	10	18,823	10,577,857.69		
1955					
Caisses rurales:					
(1) Moins de $500,000 -	1	700	263,786.61		
(2) 500,000 - 1,000,000 -	1	1,309	850,712.72		
(5) Sous-total	2	2,009	1,114,499.33		
Caisses urbaines:					
(6) Moins de $500,000 -	6	3,005	1,194,254.20		
(7) 500,000 - 1,000,000 -	0	0	0		
(8) 1,000,000 - 5,000,000 -	5	7,499	14,046,557.52		
(9) 5,000,000 - et plus	1	17,708	7,183,951.32		
(10)Sous-total	12	28,212	22,424,763.04		
(11)Total (5)+(10)	14	30,221	23,539,262.37		
1960					
Caisses rurales:					
(1) Moins de $500,000 -	1	650	427,400.44	25.3%	64.8%
(2) 1,000,000 - 5,000,000 -	1	1,616	1,202,869.18	31.8%	58.5%
(5) Sous-total	2	2,266	1,630,269.62		
Caisses urbaines:					
(6) Moins de $500,000 -	7	2,827	1,047,468.81	32.1%	40.3%
(7) 500,000 - 1,000,000 -	4	4,755	2,725,597.28	32.1%	48.5%
(8) 1,000,000 - 5,000,000 -	5	16,931	12,455,327.39	32.0%	54.7%
(9) 5,000,000 - et plus	4	29,985	32,691,539.46	38.9%	50.2%
(10)Sous-total	20	54,498	48,919,932.94		
(11)Total (5)+(10)	22	56,764	50,550,202.56		

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

11.- Bilan:

Actif:	1955	1956	1957	1958	1959	1960	1961
Encaisse:							
(12) Argent en mains	$ 260,213.36	$	$	$	$	$ 542,218.18	$ 565,711.15
(13) Dépôts aux banques	205,265.47					149,345.08	200,181.40
(14) Dépôts à la Fédération	910,730.68					3,666,500.13	4,295,039.49
(15) Autres Dépôts	40,850.62					99,050.25	113,389.07
(16) Total (12)+(13)+(14)+(15)	1,417,060.13	1,668,219.21	2,324,038.68	2,862,440.88	3,797,982.11	4,457,113.64	5,174,321.11
Placements:							
(17) Fonds à Terme à la Fédération	516,500.00	623,844.35	734,444.35	833,155.00	1,067,450.00	1,176,950.00	1,327,250.00
(17A) Réserve de sécurité de placements	9,089.37	9,089.37	9,089.37	9,089.37	12,967.13	17,053.67	67,665.23
(17B) Parts sociales dans d'autres institutions coopératives	3,730.00	3,165.00	3,175.00	3,180.00	4,181.00	4,181.00	6,681.00
(23)+(28) Obligations publiques	8,798,192.45	9,737,948.97	10,907,565.76	14,301,609.68	14,221,675.58	17,150,921.00	18,901,052.40
(29) Total	9,327,511.82	10,374,047.69	11,654,274.48	1[illegible],[illegible]47,034.05	15,306,273.71	18,349,105.67	20,302,648.63
Prêts:							
(33) Aux sociétaires	896,235.33	1,017,364.85	1,243,389.85	1,405,196.48	1,634,635.41	2,490,442.63	3,121,143.39
(35) Municipalités et Comm.scolaires	44,000.00	151,800.00	247,600.00	374,680.20	221,403.16	232,841.09	448,203.51
(36) Communautés religieuses et fabriques	45,000.00	33,000.00	50,800.00	97,400.00	72,300.00	81,892.37	151,706.97
(37) Coopératives		5,005.00	5,005.00	5,005.00	5,005.00	35,638.85	
(39) Sous-total (35)+(36)+(37)	89,000.00	189,805.00	303,405.00	477,085.20	298,708.16	350,372.31	599,910.48
(40) Total (33)+(39)	985,235.33	1,207,169.85	1,546,794.85	1,882,281.68	1,933,343.57	2,840,814.94	3,721,053.87
(46) Hypothèques	11,171,448.97	13,254,567.57	15,219,105.04	18,977,711.73	21,907,790.60	23,162,081.94	27,339,576.31
Total (40)+(46)	12,156,684.30	14,461,737.42	16,765,899.89	20,859,993.41	23,841,134.17	26,002,896.88	31,060,630.18
(47) Immobilisations	637,089.46	975,185.51	1,315,877.03	1,399,599.23	1,635,896.31	1,725,731.17	1,846,608.78
(48) Autres actifs	916.66	6,509.58	7,396.21	8,421.87	10,778.35	15,355.20	27,285.27
(49) Total de l'actif (16)+(29)+(40)+(46)+(47)+(48)	23,539,262.37	27,485,699.41	32,067,486.29	40,277,489.44	44,592,064.65	50,550,202.56	58,411,493.97

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

11.- Bilan:

Passif:	1955	1956	1957	1958	1959	1960	1961
(50) Capital Social	$ 1,436,722.79	$1,686,944.66	$2,120,276.16	$2,591,660.54	$3,019,574.31	$3,464,438.18	$4,075,702.70
(51) Epargne	20,611,833.82	23,972,506.57	27,945,296.37	35,056,765.22	38,628,712.18	41,823,522.98	46,994,739.30
(53) Epargne spéciale						1,881,352.90	3,243,103.07
(54) Sous-total (51)+(53)	20,611,833.82	23,972,506.57	27,945,296.37	35,056,765.22	38,628,712.18	43,704,875.88	50,237,842.37
(61) Emprunts de banques	50,000.00	103,000.00		200,000.00	30,000.00	6,000.00	6,000.00
(62) Autres emprunts				35,000.00	25,000.00		
(63) Sous-total (61)+(62)	50,000.00	103,000.00		235,000.00	55,000.00	6,000.00	6,000.00
(66) Autres passifs ≠	26,205.19	50,016.75	43,074.99	48,101.58	48,346.50	104,096.93	118,024.52
(67) Total du passif: (50)+(54)+(63) +(66)	22,124,761.80	25,812,467.98	30,108,647.52	37,931,527.34	41,751,632.99	47,279,410.99	54,437,569.59
Valeur Nette:							
(64) Excédents non distribués	262,391.24	330,375.77	337,919.52	477,156.70	583,323.66	622,852.29	774,177.98
(65) Réserves ≠≠	1,152,109.33	1,342,855.66	1,620,919.25	1,868,805.40	2,257,108.00	2,647,939.28	3,199,746.40
(67A) Total de la Valeur Nette	1,414,500.57	1,673,231.43	1,958,838.77	2,345,962.10	2,840,431.66	3,270,791.57	3,973,924.38
(67B) Total du Passif et de la Valeur Nette (67)+(67A)	23,539,262.37	27,485,699.41	32,067,486.29	40,277,489.44	44,592,064.65	50,550,202.56	58,411,493.97

≠ Fonds de pension et fonds d'éducation -

≠≠ Fonds de réserve, de prévoyance, de surplus et réserve de sécurité de placements -

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Etat des revenus et dépenses (à la fin de l'année sociale de chaque caisse)

REVENUS:	1950	1955	1960
(68) Intérêts sur prêts aux sociétaires (rec. de dettes, hypothèques et placements hypothèques)	$240,519.42	$527,134.33	$1,558,159.11
(69) Intérêts s/obligations et profit de capital	147,775.78	252,489.11	664,396.49
(70) Frais de service (administration)	2,193.14	9,642.44	34,614.60
(71) Comm. s/chèques,chèques retournés,échange...	2,535.71	7,049.27	26,259.12
(71A) Intérêts reçus de la Fédération	8,648.06	20,781.88	55,918.26
(71B) Ristournes reçues de la Fédération	3,583.71	10,795.74	29,187.53
(72) Autres revenus	19,595.22	41,418.84	127,287.91
(73) Total des revenus	424,851.04	869,311.61	2,495,823.02

DEPENSES:			
(74) Salaires et boni	51,235.39	112,548.69	322,145.65
(75) Dépenses administratives	49,140.23	125,407.22	363,811.67
(75A) Propagande et éducation	542.10	2,212.93	16,258.11
(76) Sous-total (74)+(75)+(75A)	100,917.72	240,168.84	702,215.43
(77) Intérêts s/épargne	174,955.25	387,268.27	1,139,236.35
(78) Boni s/capital social	33,410.01	60,548.00	160,474.35
(78A) Ristournes aux emprunteurs	7,028.97	11,524.60	41,402.63
(79) Sous-total (77)+(78)+(78A)	215,394.23	459,340.87	1,341,113.33
(80) Avoir propre (réserves + surplus)	108,539.09	169,801.90	452,494.26
Total (76)+(79)+(80)	424,851.04	869,311.61	2,495,823.02

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

ENCAISSE

	Mars	Juin	Sept.	Déc.
1955				
(12) Argent en mains				260,213.36
(13) Dépôts aux banques				205,265.47
(14) Dépôts à la Fédération				910,730.68
(15) Autres dépôts				40,850.62
(16) Total	1,762,632.00	2,090,097.64	1,821,742.99	1,417,060.13
1956				
(16) Total	1,919,794.17	1,691,305.12	1,669,206.20	1,668,219.21
1957				
(16) Total	2,026,671.29	1,935,756.79	2,053,007.72	2,324,038.68
1958				
(16) Total	3,045,997.61	3,119,577.06	3,733,934.48	2,862,440.88
1959				
(16) Total	3,625,057.42	3,172,664.13	3,120,362.71	3,797,982.11
1960				
(12) Argent en mains				542,218.18
(13) Dépôts aux banques				149,345.08
(14) Dépôts à la Fédération				3,666,500.13
(15) Autres dépôts				99,050.25
(16) Total	4,188,212.85	4,869,177.74	4,310,857.55	4,457,113.64
1961				
(12) Argent en mains				565,711.15
(13) Dépôts aux banques				200,181.40
(14) Dépôts à la Fédération				4,295,039.49
(15) Autres dépôts				113,389.07
(16) Total	4,777,356.74	5,176,342.10	5,419,061.19	5,174,321.11

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Analyse du portefeuille des Caisses:

Placements:	1955	1956	1957	1958	1959	1960	1961
(17) Fonds à Terme à la Fédération	$516,500.00	$623,844.35	$ 734,444.35	$ 833,155.00	$ 1,067,450.00	$ 1,176,950.00	$ 1,327,250.00
(17A) Réserve de sécurité de placements	9,089.37	9,089.37	9,089.37	9,089.37	12,967.13	17,053.67	67,665.23
(17B) Parts sociales dans d'autres institutions coopératives	3,730.00	3,165.00	3,175.00	3,180.00	4,181.00	4,181.00	6,681.00
Gouv. du Canada et garanties par le Gouv. du Canada:							
(18) Bons du Trésor			$ 100,000.00	$	$ 120,000.00	$ 175,000.00	$
(19) Autres 0 - 2 ans			411,950.00	128,500.00	581,000.00	203,100.00	221,000.00
(20) 3 - 5 ans			607,750.00	156,400.00	41,450.00	491,950.00	820,150.00
(21) 6 - 10 ans			575,600.00	5,000.00	10,450.00	13,050.00	185,900.00
(22) 11 - et plus			190,000.00	1,554,300.00	1,566,400.00	1,615,300.00	1,432,100.00
(23) Sous-total (18)+(19)+(20)+(21)+(22)			1,885,300.00	1,844,200.00	2,319,300.00	2,498,400.00	2,659,150.00
(24) Gouv.provincial et garanties par le Gouv.provincial			1,723,925.00	2,578,725.00	2,000,800.00	2,427,000.00	2,984,000.00
(25) Municipales et scolaires			5,320,500.00	7,221,700.00	7,320,200.00	9,238,500.00	10,837,100.00
(26) Religieuses et autres institutions sans but lucratif			1,541,750.00	1,896,950.00	1,857,850.00	2,234,550.00	2,106,650.00
(27) Autres corporations canadiennes			568,000.00	771,000.00	855,444.00	849,863.00	588,863.00
(28) Sous-total (24)+(25)+(26)+(27)			9,154,175.00	12,468,375.00	12,034,294.00	14,749,913.00	16,516,613.00
(29) Total (23)+(28)			11,039,475.00	14,312,575.00	14,353,594.00	17,248,313.00	19,175,763.00
Valeur aux livres			10,907,565.76	14,301,609.68	14,221,675.58	17,150,921.00	18,901,052.40

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Reconnaissances de dettes:

	Mars	Juin	Sept.	Déc.
1955				
(33) Aux sociétaires	$ 853,845.47	$ 880,724.25	$ 926,603.65	$ 896,235.33
(35) Municipalités et comm.scolaires	30,000.00	13,000.00	25,000.00	44,000.00
(36) Comm.religieuses et fabriques	51,000.00	48,000.00	48,000.00	45,000.00
(37) Coopératives	---	---	---	---
(39) Sous-total (35)+(36)+(37)	81,000.00	61,000.00	73,000.00	89,000.00
(40) Total (33)+(39)	934,845.47	941,724.25	999,603.65	985,235.33
1956				
(33) Aux sociétaires	947,814.22	1,072,025.10	1,058,613.86	1,017,364.85
(35) Municipalités et comm.scolaires	45,500.00	103,100.00	139,600.00	151,800.00
(36) Comm.religieuses et fabriques	43,000.00	43,000.00	39,000.00	33,000.00
(37) Coopératives	---	---	---	5,005.00
(39) Sous-total (35)+(36)+(37)	88,500.00	146,100.00	178,600.00	189,805.00
(40) Total (33)+(39)	1,036,314.22	1,218,125.10	1,237,213.86	1,207,169.85
1957				
(33) Aux sociétaires	1,077,994.60	1,175,471.81	1,239,649.40	1,243,389.85
(35) Municipalités et comm.scolaires	121,600.00	89,400.00	166,900.00	247,600.00
(36) Comm.religieuses et fabriques	33,000.00	50,000.00	50,000.00	50,800.00
(37) Coopératives	---	5,005.00	5,005.00	5,005.00
(39) Sous-total (35)+(36)+(37)	154,600.00	144,405.00	221,905.00	303,405.00
(40) Total (33) + (39)	1,232,594.60	1,319,876.81	1,461,554.40	1,546,794.85
1958				
(33) Aux sociétaires	1,202,210.24	1,264,057.93	1,305,826.63	1,405,196.48
(35) Municipalités et comm.scolaires	188,300.00	99,761.80	227,776.80	374,680.20
(36) Comm.religieuses et fabriques	78,800.00	74,741.40	99,441.40	97,400.00
(37) Coopératives	5,005.00	5,005.00	5,005.00	5,005.00
(39) Sous-total (35)+(36)+(37)	272,105.00	179,508.20	332,223.20	477,085.20
(40) Total (33)+(39)	1,474,315.24	1,443,566.13	1,638,049.83	1,882,281.68
1959				
(33) Aux sociétaires	1,513,722.45	1,615,861.59	1,632,974.03	1,634,635.41
(35) Municipalités et comm.scolaires	256,800.00	220,898.80	226,898.80	221,403.16
(36) Comm.religieuses et fabriques	75,800.00	76,064.44	70,137.34	72,300.00
(37) Coopératives	5,005.00	5,005.00	5,005.00	5,005.00
(39) Sous-total (35)+(36)+(37)	337,605.00	301,968.24	302,041.14	298,708.16
(40) Total (33)+(39)	1,851,327.45	1,917,829.83	1,935,015.17	1,933,343.57

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Reconnaissances de dettes (suite)

1960	Mars	Juin	Sept.	Déc.
(33) Aux sociétaires	$1,810,964.91	$1,972,123.98	$2,277,680.85	$2,490,442.68
(35) Municipalités et comm.scolaires	252,978.29	220,950.00	288,850.00	232,841.09
(36) Comm.religieuses et fabriques	72,300.00	72,567.98	84,567.98	81,892.37
(37) Coopératives	5,005.00	5,005.00	5,005.00	35,638.85
(39) Sous-total (35)+(36)+(37)	330,283.29	298,522.98	378,422.98	350,372.31
(40) Total (33)+(39)	2,141,248.20	2,270,646.96	2,656,103.83	2,840,814.94

1961	Mars	Juin	Sept.	Déc.
(33) Aux sociétaires	2,647,973.69	2,745,529.26	2,865,736.68	3,121,143.39
(35) Municipalités et comm.scolaires	338,029.72	265,360.53	418,008.29	448,203.51
(36) Com.religieuses et fabriques	83,443.00	104,982.23	89,694.56	151,706.97
(37) Coopératives	---	---	---	---
(39) Sous-total (35)+(36)+(37)	421,472.72	370,342.76	507,702.85	599,910.48
(40) Total (33)+(39)	3,069,446.41	3,115,872.02	3,373,439.53	3,721,053.87

Hypothèques:	Mars	Juin	Sept.	Déc.
(46) 1955	$ 8,716,119.54	$ 9,246,583.75	$ 9,897,461.64	$ 11,171,448.97
(46) 1956	11,434,600.43	12,216,557.73	12,916,803.02	13,254,567.57
(46) 1957	13,231,312.89	13,913,519.18	14,929,979.56	15,219,105.04
(46) 1958	15,680,131.55	16,781,916.98	18,077,732.64	18,977,711.73
(46) 1959	19,509,848.99	20,935,482.52	22,045,486.99	21,907.790.60
(46) 1960	21,644,222.45	21,980,229.20	22,494,649.55	23,162,081.94
(46) 1961	23,877,709.76	25,096,199.66	26,076,843.60	27,339,576.31

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

	Mars	Juin	Sept.	Déc.
1955				
(47) Immobilisations	$ 527,240.90	$ 592,287.47	$ 618,616.34	$ 637,089.46
(48) Autres actifs	31,285.09	1,546.71	1,366.31	916.66
(49) Total de l'actif	20,744,606.24	21,531,518.32	22,457,254.58	23,539,262.37
1956				
(47) Immobilisations	651,962.21	747,756.04	855,727.64	975,185.51
(48) Autres actifs	883.66	506.88	707.38	6,509.58
(49) Total de l'actif	24,937,983.22	26,018,663.67	26,899,290.40	27,485,699.41
1957				
(47) Immobilisations	1,101,197.07	1,228,656.97	1,288,049.33	1,315,877.03
(48) Autres actifs	14,034.61	15,978.37	15,055.98	7,396.21
(49) Total de l'actif	28,139,088.40	29,490,388.61	30,916,050.91	32,067,486.29
1958				
(47) Immobilisations	1,319,966.04	1,355,779.57	1,367,393.04	1,399,599.23
(48) Autres actifs	25,765.69	24,070.37	479.25	8,421.87
(49) Total de l'actif	34,506,548.91	36,974,163.75	39,279,351.81	40,277,489.44
1959				
(47) Immobilisations	1,485,781.47	1,496,312.13	1,578,654.62	1,635,896.31
(48) Autres actifs	6,554.94	7,411.68	6,534.14	10,778.35
(49) Total de l'actif	42,307,308.82	44,337,335.90	45,085,576.90	44,592,064.65
1960				
(47) Immobilisations	1,659,715.57	1,677,795.81	1,704,997.50	1,725,731.17
(48) Autres actifs	22,934.08	15,921.05	16,583.76	15,355.20
(49) Total de l'actif	45,942,249.17	47,994,202.92	49,163,274.99	50,550,202.56
1961				
(47) Immobilisations	1,732,265.79	1,774,189.23	1,790,066.41	1,846,608.78
(48) Autres actifs	14,336.81	13,920.13	28,990.03	27,285.27
(49) Total de l'actif	53,125,445.10	55,840,318.30	58,233,253.64	58,411,493.97

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

(à la fin de l'année sociale de chaque Caisse)

1956	
(50) Retraits au capital social	$ 93,000.00
(54) Retraits à l'épargne	48,186.500.00
1957	
(50) Retraits au capital social	189,200.00
(54) Retraits à l'épargne	56,581,900.00
1958	
(50) Retraits au capital social	154,700.00
(54) Retraits à l'épargne	68,900,000.00
1959	
(50) Retraits au capital social	160,400.00
(54) Retraits à l'épargne	86,086,500.00
1960	
(50) Retraits au capital social	229,000.00
(54) Retraits à l'épargne	105,410,000.00
1961	
(50) Retraits au capital social	291,500.00
(54) Retraits à l'épargne	126,600,000.00

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1955	Mars	Juin	Sept.	Déc.
(61) Emprunts aux banques	$ -	$ -	$ -	$ 50,000.00
(62) Autres emprunts	-	-	-	-
(63) Total	-	-	-	50,000.00

1956	Mars	Juin	Sept.	Déc.
(61) Emprunts aux banques	-	-	3,000.00	103,000.00
(62) Autres emprunts	-	-	-	-
(63) Total	-	-	3,000.00	103,000.00

1957	Mars	Juin	Sept.	Déc.
(61) Emprunts aux banques	-	-	-	-
(62) Autres emprunts	-	-	-	-
(63) Total	-	-	-	-

1958	Mars	Juin	Sept.	Déc.
(61) Emprunts aux banques	-	-	-	200,000.00
(62) Autres emprunts	-	-	60,000.00	35,000.00
(63) Total	-		60,000.00	235,000.00

1959	Mars	Juin	Sept.	Déc.
(61) Emprunts aux banques	-	-	235,000.00	30,000.00
(62) Autres emprunts	75,000.00	75,000.00	75,000.00	25,000.00
(63) Total	75,000.00	75,000.00	310,000.00	55,000.00

1960	Mars	Juin	Sept.	Déc.
(61) Emprunts aux banques	75,000.00	35,000.00	-	6,000.00
(62) Autres emprunts	-	-	-	-
(63) Total	75,000.00	35,000.00	-	6,000.00

1961	Mars	Juin	Sept.	Déc.
(61) Emprunts aux banques	6,000.00	6,000.00	6,000.00	6,000.00
(62) Autres emprunts	-	-	-	-
(63) Total	6,000.00	6,000.00	6,000.00	6,000.00

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

PERTES SUR PRETS

Année	Nombre	Valeur
1945	6	$ 1,535.31
1946	2	220.00
1947	2	152.53
1948	5	1,235.28
1949	3	641.03
1950	2	196.12
1951	3	1,048.57
1952	3	388.50
1953	2	333.69
1954	3	794.82
1955	5	1,191.20
1956	3	330.31
1957	5	529.83
1958	12	3,384.28
1959	15	2,899.29
1960	23	17,137.35
1961	10	2,279.35

PERTES SUR PLACEMENTS

Année	Nombre	Valeur
1959	2	$ 9,128.00
1961	22	3,782.47

111.- Répartitition des comptes d'épargne le ou vers le 31 décembre 1961:

(compilation par sondage dans 16 Caisses)

	Nombre de comptes	Valeur totale des comptes
0 - 500	35,175	$ 3,326,621.88
500 - 1000	4,890	3,448,851.08
1000 - 5000	9,903	21,050,694.68
5000 - 10000	812	5,305,954.60
10000 - 25000	241	3,340,254.66
25000 - et plus	60	2,969,464.11
	51,081	$39,441,841.01

(compilation par sondage dans 12 Caisses)

Comptes ayant eu plus de 12 retraits au cours de 1961	11,280	$ 8,179,047.63
Comptes ayant eu moins de 12 retraits au cours de 1961	32,928	29,344,015.28
	44,208	$37,523,062.91

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Société régie par la Loi des Syndicats
coopératifs de Québec

1681, rue Parc Lafontaine

MONTREAL

STATISTIQUES DE LA FEDERATION DE MONTREAL

PRESENTEES A LA COMMISSION ROYALE D'ENQUETE

SUR LE SYSTEME BANCAIRE ET FINANCIER

MONTREAL, le 13 avril 1962 -

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1955

		Mars	Juin	Sept.	Déc.
ACTIF:					
	Encaisse:				
(13)	Dépôts aux banques	$ (52,457.90)	$ 354,659.05	$ (90,166.33)	$ 96,320.50
(14)	Autres dépôts	63,430.60	84,020.12	72,656.42	16,431.34
		10,972.70	438,679.17	(17,509.91)	112,751.84
	Placements:				
(17B)	Parts sociales dans d'autres institutions coopératives	70.00	70.00	70.00	70.00
(23)+(28)	Obligations publiques	1,334,058.87	856,508.74	1,124,041.44	906,615.44
(28A)	Int. courus sur obligations	5,822.76	8,465.79	7,285.29	6,157.14
(29)	Total (17B)+(23+28)+(28A)	1,339,951.63	865,044.53	1,131,396.73	912,842.58
	Prêts:				
(35)	Munic. & Comm. scolaires	10,000.00	10,171.23	---	---
(36)	Comm. religieuses & fabriques	191,082.74	192,977.53	181,024.35	182,830.78
(40)	Total (35)+(36)	201,082.74	203,148.76	181,024.35	182,830.78
(46)	Hypothèques	229,054.97	222,129.93	220,456.27	206,522.17
(46A)	Hypothèques réescomptées	28,925.00	34,550.00	34,550.00	34,550.00
(46B)	Total (46)+(46A)	257,979.97	256,679.93	255,006.27	241,072.17
	Total (40)+(46B)	459,062.71	459,828.69	436,030.62	423,902.95
(47)	Immobilisations	2,632.77	2,557.76	3,152.88	1,924.00
(48)	Autres actifs	1,638.52	1,638.52	3,578.73	1,239.95
(49)	Total de l'actif (16)+(29)+(40)+(46B)+(47)+(48)	$1,814,258.33	$1,767,748.67	$1,556,649.05	$1,452,661.32
PASSIF:					
(51)	Dépôts des Caisses	$1,669,414.30	$1,736,400.96	$1,511,727.05	$1,420,167.71
(61)	Emprunt de banque	120,000.00	---	---	---
(64)	Surplus	1,205.30	1,205.30	1,205.30	470.71
(64A)	Excédents de l'année en cours	11,394.85	11,518.66	21,510.28	19,100.76
(65)	Réserve de séc.de placements	9,089.37	9,089.37	9,089.37	9,089.37
(66)	Autres passifs	3,154.51	6,822.01	10,404.68	2,514.15
(69)	Bénéfices de capital	---	2,712.37	2,712.37	1,318.62
(67)	Total du passif	$1,814,258.33	$1,767,748.67	$1,556,649.05	$1,452,661.32

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1956

		Mars	Juin	Sept.	Déc.
ACTIF:					
	Encaisse:				
(13)	Dépôts aux banques	$ 192,204.21	$ (130,993.76)	$ 100,747.24	$ 281,747.54
(14)	Autres dépôts	48,175.29	6,500.00	6,500.00	6,450.00
(16)	Total (13)+(14)	240,379.50	(124,493.76)	107,247.24	288,197.54
	Placements:				
(17B)	Parts sociales dans d'autres institutions coopératives	70.00	75.00	75.00	75.00
(23 +28)	Obligations publiques	1,026,434.74	1,162,584.74	1,057,084.74	899,980.94
(28A)	Int.courus sur obligations	7,493.97	10,900.37	8,274.09	7,306.23
(29)	Total (17B)+(23+28)(28A)	1,033,998.71	1,173,560.11	1,065,433.83	907,362.17
	Prêts:				
(33)	Au personnel	---	---	---	110.00
(36)	Comm.religieuses & fabriques	155,870.01	157,408.09	155,937.75	157,493.43
(40)	Total (33)+(35)+(36)	155,870.01	157,408.09	155,937.75	157,603.43
(46)	Hypothèques	204,481.22	186,069.45	198,657.85	196,257.73
(46A)	Hypothèques réescomptées	34,550.00	43,900.00	61,900.00	52,700.00
(46B)	Total (46)+(46A)	239,031.22	229,969.45	260,557.85	248,957.73
	Total (40)+(46B)	394,901.23	387,377.54	416,495.60	406,561.16
(47)	Immobilisations	2,700.97	5,914.02	6,327.14	4,903.41
(48)	Autres actifs	2,016.04	3,733.69	10,246.55	22,686.86
(49)	Total de l'actif (16)+(29) +(40)+(46B)+(47)+(48)	$1,673,996.45	$1,446,091.60	$1,605,750.36	$1,629,711.14
PASSIF:					
(51)	Dépôts des Caisses	$1,648,735.67	$1,416,043.14	$1,552,944.59	$1,595,880.08
(54)	Surplus	431.76	214.44	214.44	214.44
(54A)	Excédents de l'année en cours	11,691.60	12,397.41	26,534.41	24,527.25
(55)	Réserves de séc.de placements	9,089.37	9,089.37	9,089.37	9,089.37
(56)	Autres passifs	4,048.05	8,347.24	16,967.55	---
(57)	Total du passif	$1,673,996.45	$1,446,091.60	$1,605,750.36	$1,629,711.14

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1957

ACTIF:	Mars	Juin	Sept.	Déc.
Encaisse:				
(13) Dépôts aux banques	$ 859,356.39	$ 66,909.98	$ 393,954.62	$ 614,393.82
(14) Autres dépôts	6,760.18	31,607.85	2,097.24	19,319.28
(16) Total (13)+(14)	866,116.57	98,517.83	396,051.86	633,713.10
Placements:				
(17B) Parts sociales dans d'autres institutions coopératives	75.00	75.00	75.00	75.00
(23+28) Obligations publiques	1,077,264.67	1,070,278.93	943,211.84	1,100,750.35
(28A) Int.courus sur obligations	7,029.76	8,824.73	7,162.19	4,316.12
(29) Total (17B)+(23+28)+(28A)	1,084,369.43	1,079,178.66	950,449.03	1,105,141.47
Prêts:				
(33) Au personnel	110.00	55.00	55.00	55.00
(36) Comm.religieuses & fabriques	140,830.44	142,220.62	170,826.28	202,819.32
(40) Total (35)+(36)	140,940.44	142,275.62	170,881.28	202,874.32
(46) Hypothèques	192,493.98	220,193.70	216,524.54	221,449.51
(46A) Hypothèques réescomptées	40,400.00	41,200.00	41,200.00	40,360.00
(46B) Total (46)+(46A)	232,893.98	261,393.70	257,724.54	261,809.51
Total (40)+(46B)	373,834.42	403,669.32	428,605.82	464,683.83
(47) Immobilisations	8,221.51	7,298.78	10,166.63	21,594.96
(48) Autres actifs	42,542.01	9,166.97	1,558.50	45,536.64
(49) Total de l'actif (16)+(29)+(40)+(46B)+(47)+(48)	$2,375,083.94	$1,597,831.56	$1,786,831.84	$2,270,670.00

PASSIF:				
(51) Dépôts des Caisses	$2,350,150.10	$1,569,525.39	$1,743,935.99	$2,241,712.57
(64) Surplus	353.40	353.40	---	---
(64A) Excédents de l'année en cours	11,143.99	9,297.92	18,201.59	17,846.76
(65) Réserve de séc.de placements	9,089.37	9,089.37	9,089.37	9,089.37
(66) Autres passifs	4,347.08	9,565.48	15,604.89	2,021.30
Total du passif	$2,375,083.94	$1,597,831.56	$1,786,831.84	$2,270,670.00

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1958

ACTIF:

		Mars	Juin	Déc.
	Encaisse:			
(13)	Dépôts aux banques	$ 503,732.70	$ 581,868.51	$ 559,016.40
(14)	Autres dépôts	2,470.78	3,248.02	48,608.18
(16)	Total (13)+(14)	506,203.48	585,116.53	607,624.58
	Placements:			
(17B)	Parts sociales dans d'autres institutions coopératives	75.00	75.00	75.00
(23+28)	Obligations publiques	1,778,638.82	1,729,361.12	1,673,651.43
(28A)	Int.courus sur obligations	9,270.29	16,583.98	18,006.63
(29)	Total (17B)+(23+28)+(28A)	1,787,984.11	1,746,020.10	1,691,733.06
	Prêts:			
(33)	Au personnel	55.00	---	851.85
(36)	Comm.religieuses & fabriques	211,451.44	223,622.76	223,914.37
(40)	Total (33)+(36)	211,506.44	223,622.76	224,766.22
(46)	Hypothèques	236,565.30	269,747.19	272,984.68
(46A)	Hypothèques réescomptées	37,092.00	28,125.00	21,458.99
(46B)	Total (46)+(46A)	273,657.30	297,872.19	294,443.67
	Total (40)+(46B)	485,163.74	521,494.95	519,209.89
(47)	Immobilisations	18,791.06	18,586.48	20,038.96
(48)	Autres actifs	3,631.61	13,285.30	11,722.17
(49)	Total de l'actif (16)+(29) +(40)+(46B)+(47)+(48)	$2,801,774.00	$2,884,503.36	$2,850,328.66

PASSIF:

		Mars	Juin	Déc.
(51)	Dépôts des Caisses	$2,771,853.26	$2,831,314.98	$2,780,527.52
(64)	Surplus	952.61	952.61	682.89
(64A)	Excédents de l'année en cours	14,242.88	12,840.28	25,341.79
(65)	Réserve de séc.de placements	9,089.37	9,089.37	9,089.37
(66)	Autres passifs	5,635.88	26,653.07	30,809.33
(69)	Bénéfices de capital	---	3,653.05	3,877.76
	Total du passif	$2,801,774.00	$2,884,503.36	$2,850,328.66

N.B. Aucun bilan dressé pour le trimestre se terminant le 30 septembre 1958.

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1959

ACTIF:

		Juin	Sept.	Déc.
	Encaisse:			
(13)	Dépôts aux banques	$ (169,574.03)	$ 338,400.52	$ 521,081.31
(14)	Autres dépôts	19,854.82	29,121.05	28,254.40
(16)	Total (13)+(14)	(149,719.21)	367,521.57	549,335.71
(13A)	Dépôts fixes aux banques	701,000.00	701,000.00	701,000.00
	Placements:			
(17B)	Parts sociales dans d'autres institutions coopératives	75.00	75.00	75.00
(23+28)	Obligations publiques	1,837,533.03	1,749,958.01	1,957,926.05
(28A)	Int.courus sur obligations	17,627.48	17,894.18	23,338.28
(29)	Total (17B)+(23+28)+(28A)	1,855,235.51	1,767,927.19	1,981,339.33
	Prêts:			
(33)	Au personnel	312.85	165.00	1,542.50
(35)	Munic. et commissions scolaires	91,905.75	91,915.62	81,814.80
(36)	Comm.religieuses & fabriques	101,323.68	90,231.08	91,128.40
(40)	Total (33)+(35)+(36)	193,542.28	182,311.70	174,485.70
(46)	Hypothèques	264,392.61	258,184.21	251,839.42
(46A)	Hypothèques réescomptées	10,405.00	10,150.00	67,395.00
(46B)	Total (46)+(46A)	274,797.61	268,334.21	319,234.42
	Total (40)+(46B)	468,339.89	450,645.91	493,720.12
(47)	Immobilisations	36,261.79	39,610.92	41,973.94
(48)	Autres actifs	23,244.95	21,213.40	17,438.10
(49)	Total de l'actif (16)+(13A) +(29)+(40)+(46B)+(47)+(48)	$2,934,362.93	$3,347,918.99	$3,784,807.20

PASSIF:

(51)	Dépôts des Caisses	$2,890,052.03	$3,068,559.47	$3,729,356.78
(61)	Emprunt de banque	---	150,000.00	---
(64)	Surplus	2,582.59	2,582.59	2,582.59
(64A)	Excédents de l'année en cours	9,258.02	28,876.13	31,028.16
(65)	Réserve de séc.de placements	12,967.13	12,967.13	12,967.13
(66)	Autres passifs	17,354.16	82,627.17	4,786.00
(69)	Bénéfices de capital	2,149.00	2,306.50	4,086.54
	Total du passif	$2,934,362.93	$3,347,918.99	$3,784,807.20

N.B. Aucun bilan dressé pour le trimestre se terminant le 31 mars 1959.

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1960

ACTIF:	Mars	Juin	Sept.	Déc.
Encaisse:				
(13) Dépôts aux banques	$ 199,266.88	$ 125,026.99	$ 59,535.47	$ (44,396.48)
(14) Autres dépôts	24,682.31	73,079.20	117,213.87	(861.15)
(16) Total (13)+(14)	223,949.19	198,106.19	176,749.34	(45,257.63)
(13A) Dépôts fixes aux banques	701,000.00	772,000.00	772,000.00	772,000.00
Placements:				
(17B) Parts sociales dans d'autres institutions coopératives	75.00	75.00	75.00	75.00
(23+28) Obligations publiques	2,919,327.95	3,184,865.81	2,675,542.81	3,131,094.02
(28A) Int.courus sur obligations	26,889.18	29,949.15	33,428.10	30,196.76
(29) Total (17B)+(23+28)+(28A)	2,946,292.13	3,214,889.96	2,709,045.91	3,161,365.78
Prêts:				
(33) Au personnel	1,036.25	369.00	1,173.11	2,588.38
(36) Comm.religieuses & fabriques	156,885.73	126,679.55	111,578.44	106,542.40
(40) Total (33)+(35)+(36)	157,921.98	127,048.55	112,751.55	109,130.78
(46) Hypothèques	253,564.75	244,288.71	238,133.42	231,150.80
(46A) Hypothèques réescomptées	40,665.00	40,683.68	39,280.76	38,680.75
(46B) Total (46)+(46A)	294,229.75	284,972.39	277,414.18	269,831.55
Total (40)+(46B)	452,151.73	412,020.94	390,165.73	378,962.33
(47) Immobilisations	39,847.51	43,863.04	41,889.41	33,259.73
(48) Autres actifs	20,842.15	13,568.96	57,940.81	20,850.60
(49) Total de l'actif (16)+(13A)+(29)+(40)+(46B)+(47)+(48)	$4,384,082.71	$4,654,449.09	$4,147,791.20	$4,321,180.81

PASSIF:				
(51) Dépôts des Caisses	$4,333,842.11	$4,593,745.66	$4,041,464.31	$4,207,992.18
(64) Surplus	2,636.11	2,636.11	2,636.11	2,636.11
(64A) Excédents de l'année en cours	8,947.16	22,047.53	41,603.60	35,582.29
(65) Réserve de séc.de placements	17,053.67	17,053.67	17,053.67	17,053.67
(66) Autres passifs	21,603.66	18,966.12	30,644.01	7,295.00
(69) Bénéfices de capital	---	---	14,389.50	50,621.56
Total du passif	$4,384,082.71	$4,654,449.09	$4,147,791.20	$4,321,180.81

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1961

ACTIF:

	Mars	Juin	Sept.	Déc.
Encaisse:				
(13) Dépôts aux banques	$ 506,469.96	$ 253,041.75	$ (23,949.92)	$ 315,628.11
(14) Autres dépôts	1,198.19	46,143.16	58,464.28	29,324.75
(16) Total (13)+(14)	507,668.15	299,184.91	34,514.36	344,952.86
(13A) Dépôts fixes aux banques	772,000.00	650,000.00	650,000.00	650,000.00
Placements:				
(17B) Parts sociales dans d'autres institutions coopératives	75.00	75.00	85.00	85.00
(23+28) Obligations publiques	3,290,863.74	3,246,665.75	3,996,092.28	3,517,313.56
(28A) Int.courus sur obligations	36,259.25	36,774.21	50,716.53	38,633.67
(29) Total (17B)+(23+28)+(28A)	3,327,197.99	3,283,514.96	4,046,893.81	3,556,032.23
Prêts:				
(33) Au personnel	1,818.15	2,919.96	2,700.70	3,747.63
(35) Munic.et commissions scolaires	---	---	24,676.14	96,521.42
(36) Comm.religieuses &fabriques	80,353.60	50,498.65	114,890.85	113,461.88
(40) Total (33)+(35)+(36)	82,171.75	53,418.61	142,267.69	213,730.93
(46) Hypothèques	175,020.40	169,138.13	165,572.22	154,101.30
(46A) Hypothèques réescomptées	38,853.64	43,928.57	54,714.83	53,667.56
(46B) Total (46)+(46A)	213,874.04	213,066.70	220,287.05	207,768.86
Total (40)+(46B)	296,045.79	266,485.31	362,554.74	421,499.79
(47) Immobilisations	37,487.53	37,085.24	38,017.65	30,613.54
(48) Autres actifs	24,676.72	32,955.33	30,009.35	25,952.88
(49) Total de l'actif (16)+(13A) +(29)+(40)+(46B)+(47)+(48)	$4,965,076.18	$4,569,225.75	$5,161,989.91	$5,029,051.30

PASSIF:

	Mars	Juin	Sept.	Déc.
(51) Dépôts des Caisses	$4,855,509.11	$4,445,814.90	$4,997,954.73	$4,895,835.02
(64) Surplus	2,137.53	2,121.01	2,121.01	2,121.01
(64A) Excédents de l'année en cours	11,815.96	26,192.31	52,614.12	49,977.82
(65) Réserve de séc.de placements	67,665.23	67,665.23	67,665.23	67,665.23
(66) Autres passifs	25,993.95	25,147.75	37,353.82	5,070.27
(69) Bénéfices de capital	1,954.40	2,284.55	4,281.00	8,381.95
Total du passif:	$4,965,076.18	$4,569,225.75	$5,161,989.91	$5,029,051.30

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Etat des revenus et dépenses

	REVENUS:	1955	1956	1957	1958	1959	1960	1961
(68)	Intérêts sur prêts	$ 21,679.32	$ 21,700.79	$ 26,334.87	$ 28,278.80	$ 42,088.51	$ 27,549.61	$ 23,777.02
(69)	Intérêts sur obligations et profits de capital	32,019.00	33,294.88	27,120.53	62,768.91	73,276.99	169,642.01	159,369.37
(71)	Commissions	3,774.88	6,936.13	9,639.64	10,976.61	7,133.38	11,644.53	17,146.29
(72)	Gotisation et contribution	20,464.50	25,793.89	29,930.82	35,471.25	44,453.50	47,462.57	54,118.94
(72A)	Autres	---	214.44	430.79	742.90	7,147.53	6,778.40	6,680.21
(73)	Total des revenus	$ 77,937.70	$ 87,940.13	$ 93,456.65	$138,238.47	$174,099.91	$263,077.12	$261,091.83
	DEPENSES:							
(74)	Salaires	$ 15,399.48	$ 17,553.88	$ 22,549.90	$ 30,526.35	$ 36,220.29	$ 40,059.71	$ 54,309.04
(75)	Dépenses administratives	9,369.96	15,486.31	17,932.29	24,173.00	34,146.07	39,271.31	46,421.21
(76)	Sous-total (74)+(75)	24,769.44	33,040.19	40,482.19	54,699.35	70,366.36	79,331.02	100,730.25
(77)	Intérêts	29,908.47	30,158.25	33,106.40	50,236.68	62,236.26	89,406.14	98,080.80
(80)	Excédents ≠	23,259.79	24,741.69	19,868.06	33,302.44	41,497.29	94,339.96	62,280.78
	Total des dépenses (76)+(77)+(80)	$ 77,937.70	$ 87,940.13	$ 93,456.65	$138,238.47	$174,099.91	$263,077.12	$261,091.83

≠ Les excédents comprennent les bénéfices de capital, les frais prévus, le surplus et les excédents de l'année en cours.

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

ANALYSE DU PORTEFEUILLE:

		Mars	Juin	Sept.	Déc.
1955	- Gouv. du Canada et garanties par le Gouv. du Canada:				
(18)	Bons du Trésor	$ ---	$ ---	$ ---	$ ---
(19)	Autres 0-2	---	---	---	---
(20)	3-5	---	---	---	---
(21)	6-10	---	---	---	125,000.00
(22)	11 et plus	335,500.00	235,500.00	335,500.00	235,500.00
(23)	Sous-total (18)+(19)+(20)+(21)+(22)	335,500.00	235,500.00	335,500.00	360,500.00
(24)	Gouv.prov. et garanties par le Gouvernement provincial	267,000.00	187,000.00	187,000.00	115,000.00
(25)	Municipales et scolaires	524,000.00	436,000.00	548,000.00	439,500.00
(26)	Rel. et autres institutions sans but lucratif	15,000.00	8,000.00	13,500.00	3,000.00
(27)	Autres corporations canadiennes	200,000.00	---	50,000.00	---
(28)	Sous-total (24)+(25)+(26)+(27)	1,006,000.00	631,000.00	798,500.00	557,500.00
(29)	Total (23)+(28)	$1,341,500.00	$866,500.00	$1,134,000.00	$ 918,000.00
	Valeur aux livres	$1,334,058.87	$ 856,508.74	$1,124,041.44	$ 906,615.44

		Mars	Juin	Sept.	Déc.
1956	Gouv. du Canada et garanties par le Gouv. du Canada				
(18)	Bons du Trésor	$ ---	$ ---	$ ---	$ ---
(19)	Autres 0-2	125,000.00	---	---	---
(20)	3-5	---	275,000.00	275,000.00	150,000.00
(21)	6-10	---	---	---	---
(22)	11 et plus	235,500.00	235,500.00	235,500.00	235,500.00
(23)	Sous total (18)+(19)+(20)+(21)+(22)	360,500.00	510,500.00	510,500.00	385,500.00
(24)	Gouv. prov. et garanties par le Gouvernement provincial	215,000.00	215,000.00	115,000.00	169,000.00
(25)	Municipales et scolaires	460,000.00	450,500.00	444,500.00	356,500.00
(26)	Rel. et autres institutions sans but lucratif	3,000.00	3,000.00	3,000.00	3,000.00
(27)	Autres corporations canadiennes	---	---	---	---
(28)	Sous-total (24)+(25)+(26)+(27)	678,000.00	668,500.00	562,500.00	528,500.00
(29)	Total (23+(28)	$1,038,500.00	$1,179,000.00	$1,073,000.00	$ 914,000.00
	Valeur aux livres	$1,026,434.74	$1,162,584.74	$1,057,084.74	$ 899,980.94

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

ANALYSE DU PORTEFEUILLE:

		Mars	Juin	Sept.	Déc.
	1957 Gouv. du Canada et garanties par le Gouv. du Canada:				
(18)	Bons du Trésor	$ ---	$ 100,000.00	$ ---	$ 100,000.00
(19)	Autres 0-2	---	---	---	---
(20)	3-5	150,000.00	150,000.00	150,000.00	150,000.00
(21)	6-10	235,500.00	235,500.00	235,500.00	235,500.00
(22)	11 et plus	---	---	---	---
(23)	Sous-total (18)+(19)+(20)+(21)+(22)	385,500.00	485,500.00	385,500.00	485,500.00
(24)	Gouv.prov. et garanties par le Gouvernement provincial	115,000.00	115,000.00	115,000.00	115,000.00
(25)	Municipales et scolaires	385,800.00	484,000.00	457,500.00	460,100.00
(26)	Rel. et autres institutions sans but lucratif	3,000.00	3,000.00	3,000.00	3,000.00
(27)	Autres corporations canadiennes	200,000.00	---	---	50,000.00
(28)	Sous-total (24)+(25)+(26)+(27)	703,800.00	602,000.00	575,500.00	628,100.00
(29)	Total (23)+(28)	$1,089,300.00	$1,087,500.00	$ 961,000.00	$1,113,600.00
	Valeur aux livres	$1,077,264.67	$1,070,278.93	$ 943,211.84	$1,100,750.35

		Mars	Juin	Sept.	Déc.
	1958 Gouv. du Canada et garanties par le Gouv. du Canada:				
(18)	Bons du Trésor	$ 600,000.00	$ 100,000.00		$ ---
(19)	Autres 0-2	50,000.00	---		---
(20)	3-5	---	---		---
(21)	6-10	235,500.00	235,500.00		100,000.00
(22)	11 et plus	---	50,000.00		185,500.00
(23)	Sous-total (18)+(19)+(20)+(21)+(22)	885,500.00	385,500.00		285,500.00
(24)	Gouv. prov. et garanties par le Gouvernement provincial	116,000.00	137,000.00		126,000.00
(25)	Municipales et scolaires	643,400.00	1,075,900.00		1,053,000.00
(26)	Rel. et autres institutions sans but lucrafif	98,000.00	113,000.00		84,000.00
(27)	Autres corporations canadiennes	60,000.00	60,000.00		157,776.90
(28)	Sous-total (24)+(25)+(26)+(27)	917,400.00	1,385,900.00		1,420,776.90
(29)	Total (23)+(28)	$1,802,900.00	$1,771,400.00		$ 1,706,276.90
	Valeur aux livres	$1,778,638.82	$1,729,361.12		$ 1,673,651.43

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

ANALYSE DU PORTEFEUILLE:	Mars	Juin	Sept.	Déc.
1959 Gouv. du Canada et garanties par le Gouv. du Canada:				
(18) Bons du Trésor		$ ---	$ ---	$ 150,000.00
(19) Autres 0-2		50,000.00	50,000.00	175,000.00
(20) 3-5		---	---	50,000.00
(21) 6-10		100,000.00	100,000.00	100 ,000.00
(22) 11 et plus		185,500.00	185,500.00	185,500.00
(23) Sous-total (18)+(19)+(20) +(21)+(22)		335,500.00	335,500.00	660,500.00
(24) Gouv. prov. et garanties par le Gouvernement provincial		141,000.00	126,000.00	66,000.00
(25) Municipales et scolaires		1,104,000.00	729,500.00	993,600.00
(26) Rel. et autres institutions sans but lucratif		90,000.00	404,000.00	84,500.00
(27) Autres corporations canadiennes		202,118.30	202,118.30	193,118.30
(28) Sous-total (24)+(25)+(26)+(27)		1,537,118.30	1,461,618.30	1,337,218.30
(29) Total (23)+(28)		$1,872,618.30	$1,797,118.30	$1,997,718.30
Valeur aux livres		$1,837,533.03	$1,749,958.01	$1,957,926.05

1960 Gouv. du Canada et garanties par le Gouv. du Canada:				
(18) Bons du Trésor	$ 800,000.00	$ 700,000.00	$ 250,000.00	$ 924,000.00
(19) Autres 0-2	150,000.00	150,000.00	150,000.00	---
(20) 3-5	225,000.00	275,000.00	74,500.00	---
(21) 6-10	100,000.00	---	---	100,000.00
(22) 11 et plus	185,500.00	185,500.00	185,500.00	185,500.00
(23) Sous-total (18)+(19)+(20) +(21)+(22)+(23)	1,460,500.00	1,310,500.00	660,000.00	1,209,500.00
(24) Gouv. prov. et garanties par le Gouvernement provincial	123,000.00	223,000.00	277,000.00	277,000.00
(25) Municipales et scolaires	1,105,400.00	1,179,675.00	1,295,675.00	1,400,300.00
(26) Rel. et autres institutions sans but lucratif	84,100.00	126,300.00	292,300.00	238,500.00
(27) Autres corporations canadiennes	202,118.30	402,118.30	202,118.30	59,000.00
(28) Sous-total (24)+(25)+(26)+(27)	1,514,618.30	1,931,093.30	2,067,093.30	1,974,800.00
(29) Total (23)+(28)	$2,975,118.30	$3,241,593.30	$2,727,093.30	$3,184,300.00
Valeur aux livres	$2,919,327.95	$3,184,865.81	$2,675,542.81	$3,131,094.02

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

ANALYSE DU PORTEFEUILLE:

		Mars	Juin	Sept.	Déc.
	1961 Gouv. du Canada et garanties par le Gouv. du Canada:				
(18)	Bons du Trésor	$ 601,000.00	$ 85,000.00	$ 85,000.00	$ ---
(19)	Autres 0-2	50,000.00	75,000.00	125,000.00	125,000.00
(20)	3-5	250,000.00	250,000.00	700,000.00	650,000.00
(21)	6-10	50,000.00	50,000.00	50,000.00	50,000.00
(22)	11 et plus	135,500.00	135,500.00	135,500.00	135,500.00
(23)	Sous-total (18)+(19)+(20) +(21)+(22)	1,086,500.00	595,500.00	1,095,500.00	960,500.00
(24)	Gouv. prov. et garanties par le Gouvernement provincial	477,000.00	545,000.00	763,500.00	439,500.00
(25)	Municipales et scolaires	1,448,000.00	1,714,500.00	1,909,000.00	1,874,000.00
(26)	Rel. et autres institutions sans but lucratif	242,500.00	253,500.00	218,500.00	219,500.00
(27)	Autres corporations canadiennes	90,000.00	190,000.00	78,500.00	78,500.00
(28)	Sous-total (24)+(25)+(26)+(27)	2,257,500.00	2,703,000.00	2,969,500.00	2,611,500.00
(29)	Total (23)+(28)	$3,344,000.00	$3,298,500.00	$4,065,000.00	$3,572,000.00
	Valeur aux livres	$3,290,863.74	$3,246,665.75	$3,996,092.28	$3,517,313.56

3

Royal Commission on Banking and Finance

Hearings held at
Montreal

Vol. 18

Date. May 17 1962

Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.

ROYAL COMMISSION ON BANKING

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I N D E X

[illegible]

The Honourable [illegible]
[illegible]
[illegible], Ontario - Chairman

[illegible]

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ROYAL COMMISSION ON BANKING
AND FINANCE

I N D E X

Quebec Savings Banks 1854

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Montreal, Quebec, on Thursday, May 17th,1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Montreal, Quebec,
Thursday, May 17th, 1962.

--- On resuming at 9.20 A.M.

SUBMISSION OF QUEBEC
SAVINGS BANKS

APPEARANCES

G. Vanier	- President, Montreal City and District Savings Bank
J. Turgeon	- President, Quebec Savings Banks
G. Foucault	- General Manager, Quebec Savings Banks
A. Rainville	- General Manager, Montreal City and District Savings Bank
A. Audet	- Assistant General Manager, Montreal City and District Savings Bank

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THE CHAIRMAN: This morning we have a submission from the Quebec Savings Banks. Mr. Vanier, I believe you will present the submission.

MR. VANIER: Mr. Chairman and gentlemen, the Canadian government has entrusted your Commission with a very important task involving great responsibilities. On the merits of your own personal achievements you have been singled out as the proper citizens to handle that task, so it is my pleasure to congratulate you on your

Montreal, Quebec,
Thursday, May 17th, 19

--- On resuming at 9.20 A.M. ---

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MR. VANIER: Mr. Chairman and gentlemen, the Canadian government has entrusted your Commission with a very important task involving great responsibilities. On the merits of your own personal achievements you have been singled out as the proper citizens to handle that task, so it is my pleasure to congratulate

appointments. I wish to state that we feel it an honour to appear before this Commission and to be called upon to give you our modest cooperation.

I think I should introduce my colleagues to you. I have on my right Mr. Turgeon and Mr. Foucault, president and general manager of the Quebec Savings Banks. On my left I have Mr. Rainville and Mr. Audet, general manager and assistant general manager of the Montreal City and District Savings Bank.

As you see, all these gentlemen are French Canadians, so since you are sitting in the eastern part of Canada I am sure you are all well acquainted with both languages and if you prefer to speak French it will be quite welcomed.

Before formally filing our brief I should like to make personally two short remarks.

As you know, besides the Bank of Canada and the bank for industrial expansion, there are only two kinds of banks in Canada; chartered banks or commercial banks and savings banks. The commercial banks are called "chartered banks" but they have no charter. I believe it would be more realistic to call them "commercial banks" because their main purpose is to handle short term credit to trade in industry. On the other hand, savings banks which are not called "chartered" have royal charter since 1871, so we have our troubles. This is the reason why I submit that it would be

proper to call chartered banks "commercial banks". If chartered banks are commercial banks, we are the bank of the individual and the family. I mean by that that every citizen has a small cash balance. He has to put that in safety somewhere and we are the ones who are called upon to take care of these personal deposits. Besides that, every family has a certain number of payments. Every individual and family has certain current needs and they have to make payments in this regard, so we handle that because all of our accounts are chequing accounts, and all of them carry interest besides so they are savings deposits and at the same time chequing accounts. Besides that, the family and individual are in need of certain credit. While we are not allowed to extend credit to trade and commerce, we extend credit for all personal needs. We have all the powers of the commercial banks other than the power to lend money for trade and industrial purposes, but we do not discount commercial paper. We do, however, do all banking services.

As you see, there are those two kinds of banks which are really banks. We are called "banks" by our charter of 1871. We are both governed by two federal statutes; the commercial banks by a law called the Banks Act, and the savings banks by a law that is very similar to it and is called the Quebec Savings Banks Act. The laws are practically alike; the same dispositions and

proper to call chartered banks "commercial banks" If chartered banks are commercial banks, we are the bank of the individual and the family. I mean by that that every citizen has a small cash balance. He has to put that in safety somewhere and we are the ones who are called upon to take care of these personal deposits. Besides that, every family has a certain number of payments. Every individual and family has certain current needs and they have to make payments in this regard, so we handle that because all of our accounts are chequing accounts, and all of them carry interest besides so they are savings deposits and at the same time chequing accounts. Besides that, the family and individual are in need of certain credit. While we are not allowed to extend credit to trade and commerce, we extend credit for all personal needs. We have all the [illegible] to lend money for trade and industrial purposes, but we do not discount commercial paper. We do, however, do all banking services.

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clauses cover both institutions. The only difference is that we are not allowed to invade commercial business. On the other hand we handle commercial mortgages which the other banks are not allowed to do. However, they are practically the same in respect to the needs of all individuals of money for their homes or investments in real estate.

The other financial institutions are not allowed to use the words "bank, banking", or "banker", but more or less they have invaded the banking field. So much so that they are called "near banks" by practically everybody. They are not, as we are, submitted to the authority of the Inspector General of Banks, Mr. Alderkin, whom, by the way, we hold as a very efficient, capable and cooperative public officer, and I am glad to pay that tribute to him.

So these other institutions are not submitted to the inspections and the controls of the Inspector General of Banks. We are bound by law to send to the Minister of Finance reports which are very similar to the ones that are sent from time to time by commercial banks. Our obligations are practically the same in that regard. We are also subject to certain limitations because public authority has taken the stand that those who are handling public funds have to be controlled for the safeguard of the public, and there are certain limitations that are imposed

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upon banks. We have to work within those limitations, but the near banks are not obliged to any such limitation at all. Besides that, we pay tax as commercial banks, but some of the near banks do not pay taxes. The difference was not very impressive when taxes were at the rate of 10 or 15 per cent of profits, but now that we have to pay 52 cents out of every dollar of that profit it means something as far as competition is concerned.

You have probably noticed that the same problem has arisen in the United States. President Kennedy in his last message to Congress has said that revised the basis of taxation and dealt otherwise with a certain quantity of institutions which he calls "overprivileged". So, that shows that there is a certain problem here in Canada and that problem is a problem existing, I would say, all over the world, but especially all over this continent.

That is my first remark about the kind of banks that we have and the kind of general competition that we have to meet.

My second and last remark is this. I believe that there is an appalling lack of definition in the Banks Act. The word "bank" is not even defined there. I believe it should be a responsibility of your Commission to introduce some definitions -- some appropriate definitions in that statute because, if the general situation is confusing

upon banks. We have to work within those limitations but the near banks are not obliged to any such limitation at all. Besides that, we pay tax as commercial banks, but some of the near banks do not pay taxes. The difference was not very impressive when taxes were at the rate of 10 or 15 per cent of profits, but now that we have to pay 52 cents out of every dollar of that profit it means something as far as competition is concerned.

You have probably noticed that the same problem has arisen in the United States. President Kennedy in his last message to Congress has said that revised the basis of taxation and dealt otherwise with a certain quantity of institutions which he calls "overprivileged". So, that shows that there is a certain problem here in Canada and that problem is a problem existing, I would say, all over the world, but especially all over this

That is my first remark about the kind of banks that we have and the kind of general competition that we have to meet.

My second and last remark is this. I believe that there is an appalling lack of definition in the Banks Act. The word "bank" is not even defined there. I believe it should be a responsibility of your Commission to introduce some definitions -- some appropriate definitions in that because, if the general situation

I believe you can clarify it by stating what a bank is and what banking operation is. Personally I have my views in that regard and I might suggest to you, if you will allow me to a little later, a few definitions. However, I do not think I should introduce this aspect into the discussion now. I do have a few definitions with me that you might be called upon to consider, and I believe they might be of some help to those who have to deal with banking.

First of all, they want to know what a bank is, and I believe you should state to the public what a bank is. You have the authority to do so, and one must follow rules that are set up by an important commission such as this.

Gentlemen, that is about all I wish to say as preliminary comment. I have asked Mr. Turgeon if he wishes to make any remarks before the formal filing of our brief. He has indicated that he has nothing to say for the time being, but I am sure he will contribute in a very wise way to the discussion.

I think it is appropriate that we should start at the beginning, and I will ask Mr. Rainville to give you the highlights of our brief.

THE CHAIRMAN: Thank you very much.

MR. RAINVILLE: Mr. Chairman and gentlemen, the Quebec Savings Banks in their brief have not commented exhaustively on matters they thought would

be more completely covered by other individuals, and we have limited ourselves to subjects we believe are of special interest to the situations that concern the Quebec Savings Banks.

The Quebec Savings Banks are very proud of the fact that they are the two oldest surviving institutions in Canada. Both started their operations as mutuals and philanthropic institutions more than a century ago. In 1871, when Confederation was established in Canada they came under the pervue of the Dominion government and ceased operations as mutuals, and were granted royal charters.

Our operations are mostly in the Montreal and Quebec districts, and the two banks together have 74 branch offices and about 1,000 employees. Each bank is limited in the area in which it can operate, and our Quebec Savings Banks Act defines the main district of Montreal and the district of Quebec and the judicial districts comprised in the area where each bank has authority to operate.

I have here a map which shows exactly what are these districts that are comprised of in each area. Apart from the points covered in the Act which do not deserve special consideration, there are some points of more importance which describe the conditions under which the Quebec Savings Banks operate.

The first point would cover the cash and additional reserves. The first reserve

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must be equal to at least 5 per cent of the deposit liabilities of the bank and must be in the form of notes of the Bank of Canada or deposits with the Bank of Canada or with chartered banks.

The secondary reserve must be equal to at least 15 per cent of the banks deposit liabilities. This reserve must be in the form of notes of the Bank of Canada, deposits with the Bank of Canada, or with chartered banks, securities of or guaranteed by the government of Canada or of the provinces. Principal reserve requirements are more than sufficient. Authorities on the subject and students of banking agree that an increase in the requirements to be applied to savings deposits would serve no useful purpose.

Another section covers the securities in which we can invest freely. These securities are considered guilt edge securities and comprise securities of or guaranteed by the government of Canada or the provinces, municipal corporations, school corporations and other bonds presenting preferred security.

Another section covers securities in which investment is restricted. In this group are included bonds and debentures, first preferred shares in Canadian corporations meeting certain requirements, shares of any Canadian commercial bank and other securities approved by the Treasury Board. The total value in above investments must not exceed

[illegible]

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15 per cent of the banks deposit liabilities.

Since 1957 the Quebec Savings Banks have been permitted to invest in securities and shares of Canadian corporations, not in default of principal or interest providing the aggregate value of such investment does not exceed 50 per cent of paid up capital and rest account of the bank.

Savings banks may lend on mortgages covered by the National Housing Act and on national first mortgages. The bank restrictions apply to loans in the last category. Each loan must not exceed the lesser of $100,000 or 60 per cent of the bank evaluation of the property. There must be a building on the property of which at least one-half of the floor space is used for residential purposes.

Savings banks are not allowed to discount commercial paper. Loans may be made on securities in which the banks may invest freely and under certain conditions in shares of commercial banks or securities of a corporation in the restricted group.

Savings banks may lend money without security to the government of Canada or of any province, Canadian municipalities, school corporations, religious corporations, Fabriques de Paroisse, hospitals or sanitoriums in the province of Quebec, and under certain conditions, shares of other Canadian

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corporations.

Personal loans may also be made up to $5,000. The total amount of unsecured loans must not exceed 5 per cent of the banks deposit liabilities, excluding loans to the government of Canada or of another province.

Banks are not allowed to charge a rate of interest or discount higher than 6 per cent on loans except mortgage loans. The rates for calculating charges are also specified.

Generally speaking the Quebec Savings Banks Act compares favourably with the laws governing savings banks in other countries but the powers granted to our own savings banks have advantages over others. This is to allow the Quebec Savings Banks to fulfil a very preferred role enabling them to better serve their customers, but the banks believe that some amendments should be made to the Canadian Savings Banks Act. These amendments cover qualifications of directors because under the present statutory requirements it is very difficult if not impossible for many candidates, otherwise qualified, to be elected to the boards of directors. We recommend that the number of shares required should be reduced from 500 to 100 shares. We also ask authorization to divide our shares in order to make them more accessible to small investors.

Finally, we ask that the price limitation on the issue of new share capital be removed.

The Savings Banks recommends that bonds of large public utilities which are now included in the group of restricted investments be included in the group of unrestricted investments under certain reservations. They also recommend that the present 15 per cent limitation enclosed by Section 59 of the Act be raised to 20 per cent on deposit liabilities.

Because of the unexpected increase in the demands for loans by Religious Corporations, Syndics or Fabriques de Paroisse, or for personal loans, the banks recommend that the present limitation of 5 per cent on liabilities for the aggregate amount of unsecured loans be increased to 10 per cent. Because of possible creeping inflation and other reasons, the limitation of $5,000 for any one personal loan should be raised to $10,000.

A large increase in the demand for mortgage loans is expected in the Montreal and Quebec areas, and for this reason the Quebec Savings Banks recommend that the present 40 per cent limit to deposit liabilities be increased to 60 per cent, excluding loans made under the National Housing Act. Also, that the statutory limitation for each loan be increased, and the amount of the evaluation percentage of the residential requirements be removed.

The Savings Banks also recommend that they be authorized to make other than first conventional

mortgage loans within certain limitations.

The following points in regard to asset management by the Quebec Savings Banks are worthy of note. The Quebec Savings Banks feel that a cash reserve of approximately 10 per cent of their deposit liabilities should be kept as compared to the 5 per cent minimum required by the Act. Their holdings of Government of Canada and provincial bonds exceed by far the 15 per cent of deposit liabilities required by the Act.

We do not believe that changes that might be contemplated in regard to cash requirements for the purposes of tightening control over money or credit would, if applied to the Quebec Savings Banks, serve any useful purpose or increase the effectiveness of monetary policy. Any change of that nature should be restricted to commercial banks and to other financial institutions whose operations strongly influence the volume of money and credit.

Developments in recent years have rendered loaning powers in mortgages and personal loans too restrictive. Savings Banks wish to keep their identity as savings banks and they are not interested in making loans to industry and commerce; they prefer the private banking service to the individual and the family.

They feel justified in asking for amendments to Section 64 of the Act, and they would like to obtain at least the same lending powers in the mortgage

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The following points in regard to asset management by the Quebec Savings Banks are worthy of note. The Quebec Savings Banks feel that a cash reserve of approximately 10 per cent of their deposit liabilities should be kept as compared to the 5 per cent minimum required by the Act. Their holdings of Government of Canada and provincial bonds exceed by far the 15 per cent of deposit liabilities required by the Act.

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field as their competitors.

Personal loans are requested in larger numbers and amounts and personal restrictions should, in the Bank's opinion, be decreased.

There is a growing tendency to borrow for large consumer expenditures rather than to save for them, and thus the savings process has become the repayment of the loans after the purchase has been made instead of the building up of the accounts prior to purchase.

The Savings Banks lending rates are generally in line with those of the other banks. This policy does not apply to mortgage loans. When credit is in short supply requests are scrutinized more closely and the savings banks try to satisfy the largest number of borrowers rather than make a few large loans.

We have tried in our brief to analyse the elements of banking functions.

In the past the functions of the banks seemed clear enough in the minds of most people, and with the advance of the new types of financial institutions and their invasion of the Quebec field, the question has been raised that these institutions add to the confusion by pretending that since they do not call themselves banks their operations are not banking operations, but such superficial reasoning does not change the facts.

The Quebec Savings Banks consider that

as such they have two main objects; to ensure the highest degree of security for the money entrusted to them and to provide complete financial services for the individual and the family. In addition to the specific changes recommended by the Quebec Savings Banks, it would be advantageous for them to be allowed to render additional services to their customers such as the sale of savings banks life insurance and the establishment of their own mutual fund, the establishment of a real estate investment trust with sales to for participation by depositors, and the handling of trust accounts for their depositors.

The services offered by the Quebec Savings Banks covers nearly the same range of those offered by the commercial banks, the main differences being that savings banks cannot discount commercial paper, whereas the commercial banks are not allowed to make conventional mortgage loans. The savings banks give particular attention to those services which are oft interest to the individual and the family.

Factors influencing the rate of growth of the Quebec Savings Banks, the favourable factors are branch expansion, which is the most important factor, and new services, and we think these are the contributing factors.

The unfavourable factors are the restrictions imposed on savings banks as compared with some of their competitors, especially tax exempt institutions.

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Many institutions have departed from the principles that are supposed to govern their operations and they have entered the banking field and are less motivated by a desire to promote thrift among their members than by a business purpose.

They accumulate profits and we believe this treatment is unjustified, since it imposes a heavier burden on other taxpayers and denies the government of much needed revenue.

In practice, cooperatives and mutuals are synonymous and the Quebe Savings Banks believe that they and the other deposit corporations have become the true mutuals, since they contribute more than half of their earnings to the support of the state. This problem has drawn the attention of many, including the President of the United States.

Quebec Savings Banks are proud of their history and they have enjoyed the confidence of many generations of depositors and have provided a complete financial service to the individual and the family.

They trust that the Royal Commission on Banking and Finance will concur in their views and recommendations so that they may be permitted to better serve the thrifty who deal with them with an absolute feeling of security.

THE CHAIRMAN: Are there any questions?

COMMISSIONER LEMAN: I note, Mr. Vanier, that you have explained to us that there is a

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territorial limitation in the charter of the Quebec Savings Banks, and I note in paragraph 100 of your brief you make a reference to this territorial limitation, but you also imply that it has its advantages.

What I would like to ask you is what is the purpose of putting a territorial limitation on an institution such as the savings banks?

MR. VANIER: That I couldn't know. We haven't asked for it; we took it as it is but, in fact, the territories are pretty clear because our territory in Montreal coincides with the territory covered by the Montreal section of the Appeal Court, and the territory of our friends, of the Quebec Savings Banks, coincide with the territory covered by the division of Quebec and the Appeal Court. So, this is very clearly the problem; it is divided into two sections, and we operate in the western part and Quebec operates in the eastern part.

COMMISSIONER LEMAN: Elsewhere when you discuss the effects of growth of the Quebec Savings Banks you said their ability to operate on the branch system was one favourable factor in the growth, and if the territory was also enlarged, would that be an additional factor for growth?

MR. VANIER: Not in the immediate future, because we have in Montreal 55 operating branches and they are all in the metropolitan territory of Montreal. There are many important cities that are

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MR. VANIER: Not in the immediate future, because we have in Montreal [illegible] operating branches and they are all in the metropolitan territory of Montreal. There are many important cities that are

not covered by our institutions and they are granted to us as being in our territory but we haven't been there because the growth has been so rapid in the district of Montreal that we thought we needed good coverage in that district before expanding outside, so there is no immediate need, but it will eventually help.

COMMISSIONER LEMAN: In other words, you felt you had your hands full trying to cover your territory now.

MR. VANIER: Yes, and we agree with our Quebec friends, and there is no problem.

COMMISSIONER LEMAN: Would that be true of the Quebec bank, too?

MR. VANIER: Yes.

COMMISSIONER LEMAN: You do not have your eyes on some surrounding municipalities where you would like to go in?

MR. VANIER: We have the right, we could cover the whole western part of the province and we could go to Hull -- it is from Three Rivers; our territory covers Three Rivers to Ontario and from the United States to the North Pole!

THE CHAIRMAN: I did not know that Quebec went that far.

MR. VANIER: And Quebec has the balance; the territory is quite as large as ours.

THE CHAIRMAN: Why should you stop at the boundaries of Ontario?

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MR. VANIER: We feel that Ontario would do very nicely if they had banks similar to ours and we could help them to build some of them if they want, but for the time being we do not care to invade their territory.

COMMISSIONER LEMAN: What is a little puzzling to me is that for some reason -- that we might discuss later -- if you say there have not been other savings banks founded under the Act ---

MR. RAINVILLE: I believe there was one operating in Ontario in 1871.

COMMISSIONER LEMAN: But there has not been much of a development in that specialized type of institution.

MR. RAINVILLE: I believe this shows that there is perhaps -- can I put it this way; there is a line that could be drawn between the savings banks and other institutions. You see, in smaller communities I believe that these co-operative institutions could do the job very well because they have been specially organized to look after the communities but they would not be big enough to appeal in a big way to the larger banks, but we could take care of the territory very well because we have all these banking services that the co-operatives have -- not all of them, perhaps, because we are more limited than they are, but I mean that we could render the services as far as

deposits and credit is concerned, at least.

COMMISSIONER LEMAN: At any rate, you are not now asking for any extension?

MR. VANIER: Not in particular; it may come in the future, but not in the immediate future.

COMMISSIONER BROWN: Would you have any objection if somebody wanted to support the savings banks in your area?

MR. VANIER: No, we would help them.

COMMISSIONER BROWN: If somebody wanted to start one in Hull?

MR. VANIER: With pleasure, we would not object to it.

COMMISSIONER BROWN: Who is "we"?

MR. VANIER: I would say yes, because he is the businessman! I mean there is, of course, ---

COMMISSIONER BROWN: You see my point?

MR. VANIER: I believe that this should be clarified. I mean in principle there is no objection but, of course, as far as business is concerned the more we have the more we hold and the more we eventually could earn, but we do not take a mean decision as to that.

COMMISSIONER BROWN: At the moment let us take Hull as an example, it is within your area but you are not servicing Hull?

MR. VANIER: No.

COMMISSIONER BROWN: And that is why I asked.

MR. VANIER: I believe if the question was put that we would say, " Well, we have to decide on one or two things; we will do it ourselves immediately or we shall allow the others to do it". I believe that is the way I should clarify my answer and I believe at this point I probably agree with Mr. Rainville because we have explained we do not exist for our own sake but for public service; we have to give the service or allow others to give it.

COMMISSIONER LEMAN: You believe it is either plain or is implied in the Act now that unless you agreed there could not be another savings bank founded in your territory?

MR. VANIER: I would not say that, because we have the right to do it, but there is nothing that says that nobody could do it without our permission. This qualifies again my answer.

COMMISSIONER LEMAN: I think that is all I have.

COMMISSIONER BROWN: I was going to ask if you have any theories as to why the savings bank type of institution has developed only in these two areas of Montreal and Quebec; why has there not been more pressure for it to start in some of the other centres, either in the province of Quebec within your territories or in other parts of Canada?

MR. VANIER: Just to show that we agree on things, I will let Mr. Rainville answer that question.

MR. VANIER: I believe if the question was [illegible] ide [illegible] immediately or we shall allow the others to do it". I believe that is the way I should clarify my answer and I believe at this point I probably agree with Mr. Rainville because we have explained we do not exist for our own sake but for public service; we have to give the service or allow others [illegible].

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MR. VANIER. Just to show that we agree on things I will let Mr. Rainville answer that

MR. RAINVILLE: I think we have covered this point in our brief, and it is because it requires quite a lot of money to start a bank and for the first few years it would not make money, probably, make any profits, and it is much easier to start other types of institutions which require less money to start with and are not subjected to the same restrictions that we are and therefore can make more profitable transactions and make more profits and I think that those are the two main reasons. There might be others, but I do not know about them.

COMMISSIONER LEMAN: You must be referring to very recent experience, Mr. Rainville, because these other institutions you are talking about have not developed very fast up to 25 years ago, have they?

MR. VANIER: No, perhaps not, but they are not there now.

COMMISSIONER GIBSON: In the same vein, Mr. Vanier, do you see any peculiar advantages to a special act of preference for savings banks; why is it we have a special act here which lays down a particular framework for savings banks, has it got some special values of its own that you think are very important and should be preserved?

MR. VANIER: I believe the main reason is that since we are taking the ordinary banking operations that the government thought that anybody who would deal in that line of business should be subject to certain restrictions in order to safeguard the public. We receive the savings of the

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COMMISSIONER GIBSON: In the same vein, Mr. Vanier, do you see any one item advantageous in a special act of parliament for savings banks? Why is it we have a special act here which lays down a particular framework for savings banks, but it got some special [illegible] of its own that you think are very important and should be preserved?

MR. VANIER: I believe the main factor is that since we are taking, the ordinary banking [illegible] [illegible] set to certain restrictions in order to [illegible]

public and I believe that this is a very important responsibility and so the government has taken the stand that whoever receives savings of the public must make sure that it keeps itself in a position to turn them back if they are wanted by the depositors, so I believe that that was the main reason why we have been subjected from the very start to certain limitations and we are still subject to monthly reports and to inspections from the Inspector General of Banks, and then if it is not good then it should be dispensed with, but if it is good it should be applied to others.

COMMISSIONER GIBSON: This, I think, is the historical evolution of how this came about. Looking at it now, you believe that this Act has particular values. I realize that there has to be reliance on the banks, and this applies to ourselves as well as yourself that you have a special act and special regulations and restrictions affecting you.

Now, you feel that it plays an important part in your special kind of operation, do you?

MR. VANIER: I would say that we work wonderfully on these positions with the government, and there are certain changes that seem to be warranted. We are quite satisfied with the situation as it is, but we would like -- I mean, as Mr. Rainville stated -- we want certain modifications, but as a whole we do not object to the control, we like it.

I believe we would behave well without these obligations but it is not too bad to be under the supervision of public authority, it gives additional credit to an institution.

I referred to certain definitions, and I believe that in my mind there are two operations that are really banking operations, and one is to use the savings of clients to extend it in the form of credit to others. Now, that is a responsibility. The institution takes the stand on an intermediary between those who save and do not want to invest and those who want additional money but do not have the money to invest, so they want to use the savings of others. They have it and could use it and the bank agrees to the credit under its own responsibility and keeps business in the business and reimburses what has been deposited. I believe that this is one of the main operations of a bank.

Now, if we do that it is only reasonable that it would be subject to inspection as the commercial banks are because we do the same kind of business.

COMMISSIONER GIBSON: Mr. Vanier, that part of your definition is very broad; there are lots of other institutions that use the savings of people as a form of investment and use it somehow to give credit to others. You use it in the form of deposits.

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COMMISSIONER HILSON: Mr. Vanier, that part of your definition is very broad; there are lots of other institutions that use the savings of people as a form of investment and use it somehow to give credit to others. You use it in the form of deposits.

MR. VANIER: Yes, but it is not my definition. My definition would be the giving of credit to the public by using the savings deposited in safe-keeping.

For instance, we handle in Montreal about 300,000 accounts which is quite a number, and we have around $275 million on deposit, so this means that the average amount deposited is a little less than $1,000. Well, this is all money that may be needed eventually by anybody, so we cannot freeze that by extending credit to others. This is a great responsibility and I believe that this is the banking operation in itself, so we have to invest it in such a way that we keep ourselves in a position to reimburse any depositor who claims back his money.

[illegible]

and we have around $2.5 million on deposit, so this means that the average amount deposited is a little less than $1,000. Well, this is all money that may be needed eventually by anybody, so we cannot freeze that by extending credit to others. This is a great responsibility and I believe that this is the banking operation in itself, so we have to invest it in such a way that we keep ourselves in a position to reimburse any depositor who claims back his money.

When the money is given in safe-keeping this puts a particular responsibility on the institution, and if we lend that money that is deposited in safe-keeping we have got to do it with care, and I believe it is not bad that it should be done under the supervision of the government.

COMMISSIONER LEMAN: I certainly do not question a lot of the principles you have mentioned, but you are opening up such a delicate question that I think we ought to discuss this a bit more.

MR. VANIER: Well, I believe we are here for that. This, I must say, is my personal opinion. It is not in the report; it is my person view on the matter, and I would not like to bind my friends by that.

COMMISSIONER LEMAN: Isn't it possible to visualize some more refinements in this question. There are savers who may be anxious to have their savings available to them at no notice at all, or on very short notice, and there are other savers who are willing to invest for a specified term. There are other types of savers who are willing to invest on very long-term. So, again, if you want to talk about banking, could there be a lot of steps in this use of people's savings to give credit to others?

MR. VANIER: It is on account of that we invest in different ways. We have short-term investments and longer term investments. We invest in mortgages. We invest for five years with monthly or quarterly instalments. This is an investment of a

a particular responsibility on the institution, and if we [illegible] we have got to do it with care and [illegible] believe it is no[illegible] [illegible] the government.

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COMMISSIONER [illegible]: Isn't it possible to visualize some more refinements in this question. There are savers who might be anxious to have their savings available to them at notice at all, on very short notice, and there are other savers who are willing to invest for a specific term. There are other types of savers who are willing to invest on very long-term. So, again, if you want to talk about banking, could there be a lot of scope in this use of people's savings to give [illegible] [illegible]

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longer period because we have savings that should be kept available but they will not be required by the depositors for months and months to come or perhaps years to come.

COMMISSIONER LEMAN: But I am looking for a definition here. If a finance company that would borrow money on 10-year term from savers with the idea of giving credit to people -- is that banking?

MR. VANIER: I don't think we could say that it would be banking if it is 11 months and it would not be banking if it is 12 months. I don't think we could draw a line that way. But, in general principle, I believe whoever acts as an intermediary between the one who saves without investing and the one who needs the money without having the savings, is a banking institution. In itself it is an operation between savers and borrowers, and I believe this is one of the characteristics of a banking institution.

COMMISSIONER GIBSON: You used the word monies "entrusted" by savers to a financial intermediary when you were defining "banking": Is there any significance in those words? In other words, do you draw a line between monies that are entrusted in the form of a deposit and monies such as those Mr. Leman mentioned that are put into a piece of paper as security? Where is this line between what is a bank and what is not a bank?

MR. VANIER: I don't think I can give an answer that would be entirely satisfactory, but there is no doubt, as I said in my preliminary remarks, that

every individual and family needs a certain cash balance. That cash balance has to be kept available to the one who deposits it. According to the present requirements of the law, these monies deposited become the property of the institution, but there is a personal obligation to give it back on demand.

COMMISSIONER GIBSON: Yes, this is the case with your deposits?

MR. VANIER: Yes.

COMMISSIONER GIBSON: Would you say this was also the case where you sold a piece of paper with your name on it -- a time instrument? You put out deposit receipts, don't you?

MR. VANIER: Yes.

COMMISSIONER GIBSON: Do you regard that in the same light?

MR. VANIER: Not exactly so, I would not say.

MR. RAINVILLE: There is a proportion of deposits which will not be claimed immediately.

COMMISSIONER GIBSON: But they are also monies entrusted to you?

MR. RAINVILLE: Yes.

MR. VANIER: That is the reason why the law says we have to keep a first reserve and a second reserve, because all the monies deposited with us are not deposited under the same conditions.

COMMISSIONER GIBSON: But the reserves are not applied to specific kinds of deposits?

MR. VANIER: No, they are based on the deposit liabilities.

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COMMISSIONER GIBSON: But the reserves are not applied to specific kinds of deposits?

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COMMISSIONER LEMAN: In the second case are you still a banker, with the deposit receipts?

MR. RAINVILLE: Yes, of course.

MR. VANIER: Yes.

MR. RAINVILLE: The money can be withdrawn. It is not withdrawn, and we don't expect it to be withdrawn immediately. We know some people will need their money today or tomorrow, but not all of them. I don't think any bank would like them all to come in and claim their money.

COMMISSIONER GIBSON: But are shares in the credit union to be viewed in the same light? Is the short-term paper of a finance company to be viewed in the same light? There are differences in the liquidity and in the legal papers that are put out. There are differences in the legal obligations of the man who takes those funds. We would be interested if you could give us some idea here, but, as Mr. Leman says, it just seems to grade slight changes as you move down the time scale and as the legal form of the instrument changes.

MR. RAINVILLE: When people put money in deposit, that is a deposit and they expect to withdraw the money, except those who buy certificates of deposit. This is term money and it is therefore 90 days or a certain period of time and we can count on holding that money for that period or perhaps longer, but ordinary deposits get withdrawn at any time. They are demand deposits, and there is a distinction there.

COMMISSIONER LEMAN: We agree with you, but

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MR. VANIER: [illegible]

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our problem is that Mr. Vanier suggested we could arrive at a good definition of what is banking and what is not and that it was very clear that at one point it would be and at one point it would not be, and we were wondering about that.

MR. VANIER: I repeat my definition: The extension of credit to the public out of savings deposited for safe-keeping. When it is a deposit for safe-keeping it is supposed to be drawn or used any time without formality.

THE CHAIRMAN: Any time?

MR. VANIER: Any time -- no term. I believe the distinction may be between the money deposited under those circumstances and money deposited on certificate receipts, which are different, because this is a contract that will last the time of the deposit receipts.

COMMISSIONER LEMAN: And that would not be banking?

MR. VANIER: I would not say it would not be banking, but we could specify that the other is always banking.

COMMISSIONER BROWN: The deposit receipts would be near banking?

MR. VANIER: It may be near banking, but I don't think that formula would cover everything, but it would cover one operation.

COMMISSIONER BROWN: Would you add into that any definiition of the means of withdrawal?

MR. VANIER: Yes. I have another definition,

and I believe I will read it from my papers so that I won't miss a single word of it:

The transformation of deposit liabilities into actual currency by the acceptation of a cheque or order of payment is essentially a banking operation.

I do not mean it covers all banking operations, but it is in itself a banking operation.

COMMISSIONER BROWN: Your definition there does not include the transfer of those liabilities from one owner to another. You say the transfer into money.

MR. VANIER: Yes.

COMMISSIONER BROWN: How about the transfer from one person to another?

MR. VANIER: When the public statistics give us the amount of currency in existence they usually consider all the deposit liabilities as currency, but they are actually currency only when a cheque is drawn on those deposits. That is why I say it becomes a banking operation as soon as that deposit actually falls into circulation and becomes actual currency by the issue of a cheque or an order, because it is just as good as money at that time, and so it is really currency.

COMMISSIONER BROWN: But if one person draws a cheque on his account and gives it to another, and that person does not draw the money out, but puts it in his account, then it does not come within that definition?

MR. VANIER: Why not?

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MR. VANIER: Why not?

COMMISSIONER BROWN: Because nothing has been turned over.

MR. VANIER: If I have one dollar to give to my good friend Mr. Turgeon, I can take ten dollar bills and give it, or I can give a cheque on my account and he will deposit it in his account, so it is actual currency between he and I.

COMMISSIONER BROWN: You would include that in your definition?

MR. VANIER: Yes, as soon as it replaces metal currency or paper currency it increases the volume of currency in use.

COMMISSIONER BROWN: Let us go one stage further -- and I think this has become a legal problem in some countries: Instead of writing a cheque on your account to pay Eaton's and Simpson's you write a letter to the bank telling them to pay Eaton's and Simpson's out of your account.

MR. VANIER: Well, this might not be, because this letter cannot be endorsed and circulated as money, while a cheque could always be endorsed and could go into a hundred hands before it is debited to the account on which it is drawn.

COMMISSIONER BROWN: But our problem that arises is that ---

MR. VANIER: Yes, but a letter is a private document. I could make a call over the telephone and say, "Would you do that?", and if the bank wants to take the risk, they could make the transfer.

COMMISSIONER BROWN: And you would not call

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MR. VANIER: No, this is an ordinary contract -- this is an agreement between two parties, but I would not say it is essential banking; but when it takes the form of a document that could circulate from hand to hand in a limited period of time between an unlimited number of holders, then it acts as actual currency and this is banking because it changes the nature of the deposit. It changes into actual currency.

COMMISSIONER LEMAN: You may run into this difficulty: The Bills of Exchange Act says that a cheque is an order for payment drawn on a bank. If you start saying a bank is an institution on which certain orders for payment are drawn, then you are defining the two things one by the other.

MR. VANIER: No. I believe if we define banking operations we will find that a financial institution that does banking operations becomes a bank. As you know, other financial institutions besides the two kinds of banks I have referred to are not allowed to use the words "bank" or "banking" or "banker", and if they are not allowed to use the words, they are not supposed to do the operation, because it is not the word the act has in view, but the operation. So, an institution that does operations that are essentially banking becomes a bank in fact. So, I believe the implications would be that any institution who would like to be called a bank would have to follow the provisions of the statute that requires them to send statements to the government to

receive the control of the Inspector General and pay taxes like those who act as such. I believe the advantage of these definitions would be to clarify a situation that is most confused. You would have a definition of "banks" and also of "banking operation", and you would know who falls under the supervision of that statute, and I believe that is the key to the whole situation.

THE CHAIRMAN: If I understand you correctly, I rather get this impression, that the earmark of banking is the circulatory aspect of its operations -- the circulation of money ...?

MR. VANIER: Yes, if you use deposits and give it to another one -- well, you certainly act as an intermediary because a saver could not find a borrower by himself, and the bank does that.

THE CHAIRMAN: And to do so the bank must be highly liquid?

MR. VANIER: Certainly.

THE CHAIRMAN: And its deposits are such that they give rise to the circulation of credit?

MR. VANIER: Yes.

THE CHAIRMAN: I don't know whether that is an accurate way of putting it.

MR. VANIER: Well, to a certain extent.

COMMISSIONER GIBSON: Let me have a try. Would this be fair, to summarize what you have been telling us: That the two essential things about banking are, one, the use of the chequing privilege and, two, the acceptance of deposits which are either

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nd, two, the acceptance of deposits which are either

legally or in fact payable on demand?

MR. VANIER: No, I would not say a deposit in itself is banking, because I can go to any institution and say, "I have a loose $5,000. Would you take care of it?", and I might go this afternoon and take it back, or in one month. The deposit is not banking, in my view. It is the fact that after having deposited the money the institution uses it for credit to other people; it is the use of that deposited money for other purposes under the responsibility of the financial institution that makes it a banking operation.

COMMISSIONER GIBSON: But you also put emphasis on the demand character of the obligation -- savings entrusted. You said earlier a fixed term deposit would be something different, and in your definition here you talk about the extension of credit to the public out of savings deposited for safe-keeping.

MR. VANIER: Yes.

COMMISSIONER GIBSON: And in elaborating on that you said you thought that would probably leave out time instruments like fixed term deposits?

MR. VANIER: Yes.

COMMISSIONER GIBSON: So you do put quite a lot of emphasis on the demand nature of the obligation as one of the features, don't you?

MR. VANIER: I don't give these things as perfect suggestions. I thought it would open up a discussion, and I see that it has. I believe you could improve on that. I am speaking to experts, so I am

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just making suggestions.

THE CHAIRMAN: No. We regard you as the expert.

MR. VANIER: Thank you, Mr. Chairman. I believe you can improve on that -- I believe there is something in that -- that if you put something in the definition which includes something that would meet the aspect emphasized by Mr. Leman and Mr. Gibson, I believe it would improve the definition. If the demand money is used for credit purposes, then it becomes more clearly a banking operation. It would be demand money deposited for safe-keeping. I believe there we are coming closer to the point.

MR. RAINVILLE: It might be for a short term. With a lot of deposits, the term does not exceed one year.

COMMISSIONER BROWN: Certainly, all the way through we have been getting definitions of what is not banking. Everybody says they are not banking. But, the difficulty is to find something which says, "This is banking".

MR. VANIER: If we accept definitions of this sort -- and there may be others -- and I take the responsibility for suggesting a couple of them that are not perfect, but are, I believe, quite close to what it should be, then it would be easy to define a banker if we know what a banking operation is, because it would be an institution which does banking operations. The Act says now that a bank is a bank, and I think this is satisfactory, but it would be an improvement to

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say that a bank is an institution that does banking operations provided that "banking operations" is defined in the statute.

I believe if we have a good definition of "bank" and a good definition of "banking operations" then the inferences will be very easy to draw.

COMMISSIONER LEMAN: This is interesting, Mr. Vanier, because as I said before these exchange acts say that a cheque is an order for payment drawn on a bank, and since we do not know what a bank is, we do not know what a cheque is either, do we?

MR. VANIER: We use them though.

COMMISSIONER BROWN: Perhaps we should start this whole thing by defining "cheque".

THE CHAIRMAN: Just before we leave this subject, Mr. Vanier, you suggest that there should be a definition in the Act. Is our problem not this: To determine what is a bank within the meaning of the section in the British North America Act, which uses the expression "banking"? That is, what is "banking" within the meaning of the British North America Act? Because, if we attempt to define a bank, or banking in a federal statute by federal statute and we are not concerned with the meaning of "banking" in the British North America Act, it would not be of much use. I do not think that has ever been definied. I think one of our difficulties is that the term "bank" as used in the British North America Act has never fully been dealt with by legal decision. There have been some cases which suggested that certain operations were banking operations but they have never really attempted to define what is a "bank", nor these various possible activities that would be

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included in that operation.

Our terms of reference limit us to matters that are within federal jurisdiction and there is a very blurred distinction between what comes within federal jurisdiction as to banking and what would come within provincial jurisdiction as to some type of money lending. That might merely be property and civil rights, and we cannot determine that because we are not a court.

MR. VANIER: I quite agree, Mr. Chairman, but we are discussing the various types of institutions, and the confusion that has developed, so I believe it is within the province of your Commission to try to put some order into this situation to clarify it.

THE CHAIRMAN: I agree with you fully in that regard but there is some difficulty in putting it in precise form in the federal statute. There may be some difficulty arising, however, it may be that it can be done up to a point, and that might be very useful.

MR. VANIER: I am sorry, gentlemen, that I have taken you away from our brief as the result of certain personal interjections.

THE CHAIRMAN: No, Mr. Vanier, this is the sort of discussion we have been looking for. We have had it to some extent with others but not quite as fully as we have had with you, and we very much appreciate that you have raised this point because it is a very important one from our point of view.

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COMMISSIONER LEMAN: I would like to ask a question, Mr. Vanier, by reference to paragraph 6 of the brief where you do talk about capitl market. You make some reference there to what you call "allocation of resources" in the economy. I am wondering what sense you used that expression in the brief.

MR. VANIER: If you will allow me, I do not want to monopolize this discussion, so I will leave this to Mr. Rainville to answer.

MR. RAINVILLE: The way we understood this was that perhaps some organization in government would like to allocate reserve resources to the level of industry in order to help certain sectors of the economy. Of course, other sectors would be deprived of the necessary resources if you re-allocated them and there is continuing changes. Then the sector which had been deprived would stay in that position for quite a long time before the thing is rectified because the more you intervene the worse it becomes. That is the way we thought in this regard, and I think that explanation should about cover the subject.

COMMISSIONER LEMAN: You are referring to what government might do by giving credit to special sectors of the economy?

MR. RAINVILLE: At the expense of other sectors.

COMMISSIONER LEMAN: You would not call it an allocation of resources if the allocation happened to be accomplished through the working of the free market, is that right?

COMMISSIONER LEMAN: I would like to ask a question, Mr. Vanier, by reference to paragraph 6 of the brief where you do talk about capital market. You make some reference there to what you call "allocation of resources" in the economy. I am wondering what sense you used that expression in the brief.

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MR. RAINVILLE: The way we understood this was that perhaps some organization in government would like to allocate reserve resources to the level of industry in order to help certain sectors of the economy. Of course, other sectors would be deprived of the necessary resources if you re-allocated them and there is continuing changes. Then the sector which had been deprived would stay in that position for quite a long time before the thing is rectified because the more you intervene the worse it becomes. That is the way we thought in this regard, and I think that explanation should about cover the subject.

COMMISSIONER LEMAN: You are referring to what government might do by giving credit to special sectors of the economy?

MR. RAINVILLE: At the expense of other sectors.

COMMISSIONER LEMAN: You would not call it an allocation of resources if the allocation happened to be accomplished through the working of the free market, is that right?

MR. RAINVILLE: No.

COMMISSIONER LEMAN: Now I should like to talk a little bit about your section entitled "Liquidity and Cash Management". If we look at your submission we see that 62 items in the assets there; well, let us take the Montreal banks to start with, and that is Schedule II.

COMMISSIONER BROWN: At page 56.

COMMISSIONER LEMAN: At page 56, Schedule II. If we refer at the same time to paragraph 34 of the brief, where there is a cross reference which you make to Schedule II, we see that you explain in paragraph 34(b) that the excesses in item 1 of Schedule II over the prescribed 5 per cent cash reserve plus that portion of item 2 which can be properly accounted on as part of the secondary reserve, etc. That is a little bit puzzling to me. What is the portion of item 2 that can be properly counted as part of the secondary reserve?

MR. RAINVILLE: The actual cash we have in our tills and things like that, because in item 2 are included the cheques drawn on us and the other banks, and they can be counted as a reserve. I refer to the cheques that we have in clearing, for example, which are not cleared yet. We may have $1 million, $2 million or perhaps more in cheques that we have paid during the day and at closing time we still have those cheques. They are not actual cash but they can be counted as a reserve. They are cheques drawn on us that have not been charged to the

MR. RAINVILLE: No.

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bank accounts of the depositors. They are included in that figure, but there is also a large amount of Bank of Canada notes and money in that $12 million figure, so that can be counted. That is what we meant.

COMMISSIONER LEMAN: What I would like clarified is this: Would you say that item 1 is clearly all part of the primary reserve?

MR. RAINVILLE: Not all of it; 5 per cent of the deposits. We have $257 million on deposit. 5 per cent of that is about $12,500,000, or $13 million. We have $21 million in the first figure there in excess of the $8 million there. This can be counted in the 15 per cent.

COMMISSIONER LEMAN: That is right, but all of item 1 qualifies as the type of assets that can form the primary reserve?

MR. RAINVILLE: Yes.

COMMISSIONER LEMAN: Now, a part of item 2 can also be part of the primary reserve?

MR. RAINVILLE: Exactly, yes.

COMMISSIONER LEMAN: A part of it qualifies for secondary reserve?

MR. RAINVILLE: Yes.

COMMISSIONER LEMAN: Now, how much of that item 1 would you say as of that date was assets qualifying for primary and assets qualifying only for secondary?

MR. RAINVILLE: Perhaps Mr. Audet will answer that.

COMMISSIONER BROWN: Further than that, the reference you made, Mr. Leman, indicates that only part of item 2 can be counted as secondary reserve.

COMMISSIONER LEMAN: Yes.

COMMISSIONER BROWN: So some of it does not count as any reserve at all.

MR. RAINVILLE: We usually have from $4 million to $5 million in notes. We are trying to find the exact figure on that.

COMMISSIONER BROWN: Why would not those notes be in item 1?

MR. RAINVILLE: Well, that is true, they are in item 1.

MR. AUDET: In item 2 we have some deposits in the banks which are in United States currency and they cannot be counted in item 1. The Act, of course, says that the 5 per cent cash reserve has to be in Canadian currency. Of course, we have in item 2 the outgoing clearings; we have, of course, bonds matured and coupons which are still in the teller's cash in the branches. That is considered, of course, cash because at the time of closing then Brinks will have these effects and put them through clearing, but it is really cash. So at the time of closing it would be an outgoing clearing; what remains in the teller's cash in matured bonds and coupons and all these things because, as you know, at the end of each month a large amount of matured bonds are deposited, as

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well as coupons. These are all in item 2.

COMMISSIONER LEMAN: What I was suggesting is that it does not have much importance in this case because as of that date you obviously have a primary cash account way above your statutory limit. I am suggesting that if we look at such statements and if you were closer to your minimum, we would not know what the real margin is the way these two items are shown.

MR. RAINVILLE: Providing item 1 complies with the requirement of the law.

COMMISSIONER LEMAN: Yes.

MR. RAINVILLE: If we had $260 million at the end of the fiscal year, the law says 5 per cent, which is $13 million, one can see that we have much in excess of the $13 million in item 1, which is the item which should give the supply limitation.

COMMISSIONER LEMAN: So we would not know how much above that you are?

MR. RAINVILLE: Yes.

COMMISSIONER LEMAN: That is, by looking at these two items, so that I think what Mr. Vanier said in his opening remarks as well as is stated in paragraph 119, explains that you have been working on the average at a 10 per cent cash reserve.

MR. RAINVILLE: Yes.

COMMISSIONER LEMAN: Rather than the 5 per cent which is the statutory limit.

MR. RAINVILLE: That is quite true, yes.

Those are all in item 2.

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MR. RAINVILLE: That is quite true, yes.

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COMMISSIONER LEMAN: What makes you feel that 10 per cent is a good figure, and how much fluctuation has there been, let us say, over the last ten years or some other recent period, in the actual reserve?

MR. AUDET: I would say the fluctuations have been narrow. We have always felt it has been good banking practice, and I think all through the years of banking it has been considered that a 10 per cent cash reserve has been enough to supply the possible withdrawals by depositors.

COMMISSIONER LEMAN: You have seen that?

MR. AUDET: We have. We do not need that much money.

MR. VANIER: But we keep it.

COMMISSIONER GIBSON: This is what chartered banks used to do.

MR. RAINVILLE: 8 per cent.

COMMISSIONER GIBSON: Before that came into effect 10 per cent was the approximate cash ratio. You follow in a rather similar way in this regard what they used to do.

MR. AUDET: That is quite true.

THE CHAIRMAN: The 5 per cent must be kept at all times.

MR. RAINVILLE: Yes.

THE CHAIRMAN: You would get into difficulty otherwise, but this extra five per cent gives you something extra?

MR. RAINVILLE: The $7\frac{1}{2}$ or 8 per cent ratio would be satisfactory.

THE CHAIRMAN: We shall now adjourn for ten minutes.

--- Short recess.

--- After recess.

THE CHAIRMAN: We shall now resume.

COMMISSIONER GIBSON: Mr. Vanier, before the recess we were talking about the cash reserve practices of the two Quebec city banks. I should like to follow along this customary 10 per cent ratio that you follow just a little further. I should also like to get your views on the way that the minimum required cash reserve is calculated.

First of all, with regard to the 10 per cent customary reserve, I think one of the witnesses said that it did not vary a great deal.

MR. VANIER: Yes.

COMMISSIONER GIBSON: Is this correct or does it go up 2 or 3 per cent and down 2 or 3 per cent?

MR. VANIER: I think I will ask Mr. Audet to give you further information in that respect.

MR. AUDET: It may vary at certain periods of the year.

COMMISSIONER GIBSON: Or when money is a bit tight it might go down a bit and go up again later?

MR. AUDET: Yes, but usually we do operate on this minimum of 10 per cent.

COMMISSIONER GIBSON: But you would not be concerned if for a short period it went down to 8 per cent ?

MR. AUDET: We would never allow it to go to 8 per cent.

COMMISSIONER GIBSON: Are you talking about the cash ratio or the cash plus the items figured in item 2?

MR. AUDET: I am talking about the cash.

COMMISSIONER GIBSON: Just cash that is deposited with the Bank of Canada and chartered banks, and with your tellers?

MR. AUDET: Yes.

COMMISSIONER GIBSON: I made a few calculations in regard to it and it seemed to me that it did vary a bit from one statement to the other.

MR. FOUCAULT: In our case it might go down to 6 per cent, but we never allow it to go below 6 per cent.

COMMISSIONER GIBSON: It might go up as well?

MR. FOUCAULT: It might go up to 8 or 9 in certain circumstances, yes.

COMMISSIONER BROWN: In the Quebec Savings Banks you do not hesitate to borrow from the chartered banks to bring it up?

MR. FOUCAULT: We would borrow from the chartered bank to keep the deposit, covering the shortage that may happen once in a while.

COMMISSIONER BROWN: We noticed that at December 31st your cash in item 1 was only $3,100,000 and, of course, there would be a portion of item 2 in that category as well.

MR. FOUCAULT: Yes.

COMMISSIONER BROWN: We do not know how much of item 2 falls in that category, but your advances from chartered banks were $2,600,000, so most of your cash was made up in borrowings from chartered banks?

MR. FOUCAULT: We do as a practice keep $1 million in deposit accounts for the cash reserve because we do not need so much cash in our tills due to the fact that the bank is not as big as the Montreal District Savings Bank, and our requirement would not be as heavy as in Montreal on this account.

COMMISSIONER BROWN: I missed one phrase there. You say you keep $1 million where?

MR. FOUCAULT: On deposit with the bank in account with cash reserve.

COMMISSIONER GIBSON: You examine your cash position every day?

MR. FOUCAULT: Every day, yes, and we have to report every day on a monthly basis.

COMMISSIONER GIBSON: Just as the chartered banks do?

MR. FOUCAULT: Yes, exactly.

COMMISSIONER GIBSON: This leads to the other question. You calculate your required minimum cash reserve quite differently from the chartered

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banks. The chartered banks are permitted to average in working out their 8 per cent. This is a daily average for the month, but you simply cannot go below the 5 per cent figure at any time, this is correct, is it not?

MR. FOUCAULT: Yes, that is true.

COMMISSIONER GIBSON: Do you find this satisfactory?

MR. FOUCAULT: Yes.

COMMISSIONER GIBSON: Did you make any representations about it at the last revision of your Act?

MR. FOUCAULT: No.

COMMISSIONER GIBSON: Would you see any merit in doing anything on the same basis; that is as the chartered banks ratio is calculated? Is there any reason for having it different, let us say? I am not talking about the percentage. I am talking about the way it is calculated. They have an average minimum.

MR. AUDET: The fact that we keep such a comfortable margin gives us the feeling that we would not require any change.

COMMISSIONER GIBSON: In other words it does n ot make much difference to you?

MR. AUDET: No, not much.

MR. FOUCAULT: No.

COMMISSIONER GIBSON: But if the ratio was higher it would be a different matter?

MR. AUDET: Yes, definitely, because then

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we would have to stick to the higher minimum, if it would be such. As it is now we do not see any need for it being changed.

COMMISSIONER GIBSON: But you do not see any particular merit in having it different either, do you?

MR. AUDET: No.

COMMISSIONER GIBSON: If it were the same there would be no particular objection to that, I take it?

MR. RAINVILLE: I do not think it would be a good thing because we would have to keep a higher minimum. We have 10 per cent now and we could have 8 per cent without difficulty, but if we had to maintain an 8 per cent minimum we would have to keep it at 10 per cent, 11 per cent or perhaps 12 per cent.

COMMISSIONER GIBSON: I was not suggesting a change in the minimum, I was talking about the way the minimum is calculated.

MR. RAINVILLE: Yes.

COMMISSIONER GIBSON: In other words if you did it the way the chartered banks do you would be allowed to average your daily position by the month in arriving at your minimum 5 per cent.

MR. RAINVILLE: Yes.

COMMISSIONER GIBSON: But the way it is now you just cannot go below 5 per cent?

MR. RAINVILLE: That is right.

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there was any particular reason for having it that way, or having it done a different way.

MR. RAINVILLE: No, sir.

COMMISSIONER GIBSON: This leads me to the next question. You think that the cash ratio requirement for the two savings banks should be lower than that for chartered banks, is that correct?

MR. RAINVILLE: Yes.

COMMISSIONER GIBSON: What are your grounds for that statement?

MR. RAINVILLE: Of course they have to meet higher commitments than we do because they have current accounts and there may be large withdrawals. We do not have that in the same proportion at all.

COMMISSIONER GIBSON: You would otherwise say, as a matter of common sense, cash requirements for savings deposits would not necessarily have to be as for demand deposits?

MR. RAINVILLE: That is true.

COMMISSIONER GIBSON: Well, would that itself then lead you to another general idea about how this cash business should be, let us say, related to the fact that you have savings deposits?

MR. RAINVILLE: Yes, I would say that. I believe in United States they have studied this question and have thought that for commercial banks the reserve requirement on savings deposits should be lower than on the other deposits.

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COMMISSIONER GIBSON: I think this is the

logic of it; if you think the savings bank requires lower cash then it is really savings deposits that you are thinking about?

MR. RAINVILLE: Yes, sir.

COMMISSIONER GIBSON: You don't have any particular suggestions that you want to make about this; you don't feel strongly about it?

MR. TURGEON: No, we would have to keep a reserve anyway even if it is not required by law. We need a reserve.

COMMISSIONER GIBSON: Just one other point on this matter; you think that 5 per cent is a reasonable minimum?

MR. TURGEON: Yes.

COMMISSIONER GIBSON: And that there is no reason for having a higher legal minimum,and yet you, in fact, keep something close to ten?

MR. TURGEON: Yes.

COMMISSIONER GIBSON: Would you just explain your answer there a little more?

MR. TURGEON: We have to keep a margin of, say, 2 per cent and then we have commitments for mortgages, for example; we may have \$8 million or \$9 million or \$10 million in commitments.

COMMISSIONER GIBSON: But you have them in Treasury Bills or day money, that would be almost the same, wouldn't it?

MR. TURGEON: Yes. There might be at the end of each month, or the middle of the month, a certain amount of withdrawals, \$4 million or \$5 million, so we have to be ready for that.

COMMISSIONER GIBSON: In other words, you are pretty conservative in your margins?

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MR. VANIER: We agree.

MR. TURGEON: We prefer to be on the safe side.

COMMISSIONER BROWN: You can keep this cash either on deposit with the Bank of Canada or with a chartered bank?

MR. TURGEON: That is right.

COMMISSIONER BROWN: In fact, you keep it almost all in the chartered bank?

MR. TURGEON: Yes.

COMMISSIONER BROWN: Why?

MR. TURGEON: Because they pay interest.

COMMISSIONER BROWN: That is what we wanted to find out. What rate of interest do you get on this; it is not mentioned anywhere?

MR. TURGEON: That is true. Well, it varies, of course, and this is on current deposits.

MR. AUDET: Yes, current deposits. There are two services on deposits, on which we get 3¼ per cent on 90-day certificates and 3½ and 3-3/4. On these rates, of course, we have the alternate; either, as Mr. Gibson mentioned, buying Treasury Bills, investment in day money or deposit with chartered banks, so in choosing these alternates we try to get the most advantageous so if we find that we have a certificate of deposit in a commercial bank, well, we can do that. Of course, it does reflect itself in the cash reserves and might show an unusual cash reserve. If it had been a Treasury Bill it would have been included in Government of Canada bonds.

COMMISSIONER BROWN: Then, some of this cash reserve is really a 90-day deposit?

MR. AUDET: Yes.

COMMISSIONER BROWN: In other words, you can't get at it for 90 days?

MR. AUDET: Yes, we do.

COMMISSIONER BROWN: What do you mean, you do; you can get at it?

MR. AUDET: Yes, we could.

MR. TURGEON: But we wouldn't get the same rate of interest.

COMMISSIONER BROWN: As the 90-day deposit, but you have the right of withdrawal and taking no interest?

MR. TURGEON: That is right.

COMMISSIONER BROWN: What percentage would you carry in these deposit rates, 5 per cent? Would that be your 5 per cent reserve, in fact?

MR. AUDET: Of course, in the cash reserve we have the balance in the Bank of Canada where we maintain an average of about $2 million. We have current accounts in commercial banks where we keep about, I would say, $3 million, and the rest would be in certificates of deposits.

COMMISSIONER BROWN: With chartered banks?

MR. AUDET: Yes.

COMMISSIONER BROWN: Why would you keep the current account with the chartered bank?

MR. AUDET: Well, being more liquid we prefer to get a lower rate of interest, but we could draw on

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MR. AUDET: Well, being more liquid we prefer to get a lower rate of interest, but we could draw on

this at the end of each month because the interest is payable on the minimum monthly balance.

COMMISSIONER BROWN: What sort of a rate do you get on those?

MR. AUDET: 2½ per cent.

COMMISSIONER GIBSON: Some of your cash is, in fact, earning a very nice profit?

MR. VANIER: The commercial banks like that very much.

MR. TURGEON: They offer the same services, and there are collection charges and things like that; we get repaid on the collection charges.

COMMISSIONER GIBSON: There is not too much difference in some of the items under that Item 2 and the ones in Item 1. I take it that you have some Treasury Bills in Item 2?

MR. AUDET: Any Treasury Bills would be included in the Government of Canada bonds. What is in Item 2 -- sometimes we find it advantageous to take certificates of deposit in U.S. currency. If the rate is by way of a swap we will take it and, of course, the 5 per cent minimum cash reserve required by law is mentioned in Canadian currency, so we can't calculate that in No. 1, it has to be in No. 2.

COMMISSIONER GIBSON: What I am trying to get at is what would you refer to as your sort of working liquid ratio of highly liquid assets? You have the cash in the form of deposits, deposits with the chartered bank and you have some Treasury Bills, some loans and items on clearing. What else is

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MR. VANIER: The commercial banks like that very much.

MR. TURGEON: They offer the same services, and there are collection charges and things like that; we get repaid on the collection charges.

COMMISSIONER GIBSON: There is not too much difference in some of the items under that Item 2 and the ones in Item 1. I take it that you have some Treasury Bills in Item 2?

MR. AUDET: Any Treasury Bills would be included in the Government of Canada bonds. What is in Item 2 -- sometimes we find it advantageous to take certificates of deposit in U.S. currency. If the rate is by way of a swap we will take it and, of course, the 5 per cent minimum cash reserve required by law is mentioned in Canadian currency, so we can't calculate that in No. 1, it has to be in No. 2.

COMMISSIONER GIBSON: What I am trying to get at is what would you refer to as your sort of working liquid ratio of highly liquid assets? You have the cash in the form of deposits, deposits with the chartered bank and you have some Treasury Bills, some loans and items on clearing. What else is

there? That is about it? What would the ratio be?

MR. AUDET: We have the current accounts, which are quite liquid.

COMMISSIONER GIBSON: With banks?

MR. AUDET: Yes.

COMMISSIONER GIBSON: That is part of your cash?

MR. AUDET: Yes, and on the certificates of deposits we have different terms; we may have some for 90 days and longer.

COMMISSIONER GIBSON: What would you say you would have in highly liquid assets, would it be 15 per cent, something like that; the short date, highly liquid assets?

MR. AUDET: I would say 15 per cent, yes, because you have to consider the day-to-day money.

COMMISSIONER BROWN: Where does the day-to-day money appear on this balance sheet? What item?

MR. AUDET: It is under loans.

COMMISSIONER BROWN: Under Item 10?

MR. AUDET: Yes, secured loans.

COMMISSIONER BROWN: It is not broken down. So, that is another concealed liquid asset, really?

MR. AUDET: Yes.

COMMISSIONER BROWN: The extent to which your secured loans are shown?

MR. AUDET: Quite true.

COMMISSIONER GIBSON: Your statement here doesn't show what the banks call their cash and highly liquid assets?

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MR. AUDET: No.

COMMISSIONER GIBSON: It doesn't come out that way here.

MR. AUDET: No, that is true, but this is their prescribed form.

COMMISSIONER GIBSON: And this is because you don't have this daily cash averaging with the Bank of Canada, I suppose?

MR. AUDET: Yes. I suppose we have underestimated our real position if we don't show our real -- if it doesn't show ---

COMMISSIONER GIBSON: I think that you understate your real liquid position.

MR. AUDET: Yes.

COMMISSIONER GIBSON: At least, you don't show it here.

MR. AUDET: No.

COMMISSIONER LEMAN: Stemming from that, I am wondering if you have ever thought this way of looking at cash reserves; you have stated before that in fact you considered all your deposits as savings deposits and all subject to chequing; they are all demand deposits despite the fact that they perform like savings deposits, and that is what you have explained to us as a general statement.

Would you say, to define this question of ratio reserves a bit more, would you say there is some possibility of savings deposits improving their earning capacity by having a more elaborate cash reserve or liquid reserve and not considering all

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your deposits as necessarily demand deposits and making arrangements for getting better interest rates on deposits and having the whole scale of types of deposits with different reserve rates for each type.

MR. VANIER: We are asking for an extension of the privilege to lend on mortgages. You see, we would like to increase the possibility of lending more money on mortgages because this is really our business because we act with individuals and with a family who owns real estate, so we would like to increase our earnings and to keep the liquid position just the same so that the two would agree very well together, but we are satisfied we are in a very different position.

COMMISSIONER LEMAN: You don't want to complicate your deposit structure, is that it?

MR. VANIER: No.

COMMISSIONER GIBSON: Would the practice of the Quebec Savings Banks, Mr. Turgeon, in this regard be quite similar to the Montreal City?

MR. TURGEON: Yes, similar.

COMMISSIONER GIBSON: Do you think in terms of about the same ratios?

MR. TURGEON: Yes.

COMMISSIONER LEMAN: In that connection, by the way, do you have any reason, based on the behaviour of depositors in the Quebec District as compared to the Montreal District, for the much higher turnover ratio in Quebec?

MR. FOUCAULT: This may have happened. Our

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MR. FOUCAULT: This may have happened. Our

average deposit may be less than the Montreal District Savings Bank, and we have found out that when unemployment occurs our withdrawals are heavier and this is a case where it may happen that the withdrawals are heavier in Quebec than in Montreal.

COMMISSIONER LEMAN: What you are explaining here is that the average depositor, perhaps a smaller family depositor, needs more of his savings to pay for his daily living costs?

MR. FOUCAULT: Yes.

COMMISSIONER LEMAN: So there is less true savings in that sense?

MR. FOUCAULT: A certain ---

COMMISSIONER LEMAN: Less savings in your deposits?

MR. FOUCAULT: A certain type of depositor may keep less money in the bank in the Montreal District.

COMMISSIONER GIBSON: I would like to ask a few questions about the structure of your assets and looking at the period of the last seven years, 1954 to 1961, and putting quite a few of these figures together it seems there has been a quite radical change in the nature of the assets of the two banks from the joint tolls.

Your holdings of Government of Canada bonds are down substantially; your municipal bonds are down substantially and, indeed, your sub-total of securities is down from about 80 per cent of the total to 58 per cent, and on the other side of this there is a great increase in your mortgage business; it has

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gone from 4 per cent for conventionals to 20 per cent and from 1 per cent for N.H.A. to 3 per cent now, and there is also a modest increase in unsecured loans from 1 per cent to 2½ per cent.

Now, this suggests a change in the character of the whole savings bank operation. Now, I would first like to ask you is this roughly the same for the two banks or are you pursuing different courses in this respect?

MR. FOUCAULT: We have been granted the right to make conventional mortgages since 1957 only, and this is what happened at that time and that is why the change happened in the Government's holdings -- since 1928, as a matter of fact, when a larger proportion came in in the last 7 or 8 years.

COMMISSIONER GIBSON: From 1954 on it shows a very high increase in the proportion of conventional mortgages.

MR. FOUCAULT: That is right. We have been exploring that heavier since we have had that privilege to grant mortgages.

COMMISSIONER GIBSON: And both banks have been moving in this same direction?

MR. FOUCAULT: That is right.

MR. VANIER: I think we have been moving a little sooner than our friends on account of the expansion of Montreal and there is quite a demand for mortgage loans.

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Societies in the way in which your assets are developing, perhaps not as much in mortgages ---

MR. VANIER: Our branches are located in the residential sections, more or less and our branches are nearer to the homes than the commercial banks, so we meet the requirements of the individual and the family, and you know the families are interested in a home and besides being savers, they are interested in investment in real estate, so we try to co-operate with our clients in improving these requirements.

COMMISSIONER GIBSON: And this is the trend that you see developing long into the future?

MR. VANIER: Yes. We have started slowly because the right was given to us in 1948 and with increases from year to year, so this has led us to increase our investments in mortgages and we believe that this is according to the line of business that we are in; personal loans to a certain extent and mortgage loans, which are very, very satisfactory because we have no losses.

COMMISSIONER GIBSON: Now, did you tend to move in this direction for competitive reasons because you saw new opportunities?

MR. VANIER: It is a way of serving the public; there is a demand for it and we would like to have the law allow us to lend more on a value of the property and to invest more of our capital in that sort of investment. This is a form of credit that we like because it is very useful to the public and quite satisfactory to us.

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COMMISSIONER GIBSON: You suggest, indeed, having the right to go up to 60 per cent?

MR. VANIER: That is right.

COMMISSIONER GIBSON: In mortgages, and I am wondering if that is not such a substantial percentage that it might be more meaningful to turn it the other way around and say that you ought to have a certain amount of liquid assets as securities and perhaps no limitation on the mortgages because it depends on which side you look at it from.

MR. VANIER: Yes.

COMMISSIONER GIBSON: Is there any particular reason for saying 60 per cent?

MR. TURGEON: Because we think it would be easier to get than if we asked for the whole thing!

COMMISSIONER BROWN: I am trying to find the place in the brief where it says what your mortgages are now, and the only thing I can spot quickly is the appendix where you divide it up like a pie.

COMMISSIONER GIBSON: It is around 24 or 25 per cent, isn't it?

COMMISSIONER BROWN: Around 25 per cent for the Montreal bank and 12 per cent for the Quebec. It is the total assets, not deposit liabilities, so you are nowhere near the 40 per cent now.

MR. VANIER: We are getting nearer to it and we would like to have it increased before it is too late, otherwise we will stop doing business.

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MR. VANIER: And we have got heavy commitments for mortgages.

MR. AUDET: It is 21.

COMMISSIONER BROWN: I am looking at page 61 and it says 12 per cent.

MR. FOUCAULT: Yes, that is right.

COMMISSIONER BROWN: The 12 per cent is correct?

MR. FOUCAULT: Yes.

COMMISSIONER BROWN: How soon do you estimate at your present expansion that the Montreal bank would get up to 40 per cent or close to the 40 per cent?

MR. VANIER: Two years; 1964.

COMMISSIONER BROWN: How about Quebec?

MR. FOUCAULT: It may take longer because the expansion is not as fast as in the City of Montreal, but the demand that the bank is asking for in the next 10 years, and according to the government's rule the banking law should be revised every 10 years.

COMMISSIONER BROWN: You want to have lots of room for flexibility?

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COMMISSIONER BROWN: But you were not up to the 20 per cent?

MR.FOUCAULT: No, no.

MR. VANIER: On these matters we usually act jointly.

COMMISSIONER LEMAN: If you look at the last ten years quite a lot of things have happened in the last ten years and we never know, maybe a lot of things will happen in the next ten years again, but what interests me is that if you look at the schedule of legislation dealing with savings banks that you have given us as Schedule 1, there have been a lot of re-openings, haven't there; 1933, 1934, 1944, and then 1948 and 1950, 1954 and 1957. I think that that may have been a little bit of what Mr. Gibson had in mind, that if conditions change -- and sometimes it is difficult to look ahead 10 years -- do you feel that in general the Act is a little too detailed as to how you should run your business. You say, "We like to get a high liquid position and that we are on the average away above our ratio reserves," etc., and then the Act deals with the asset side of your balance sheet in quite a lot of detail, so I think that we are wondering a little bit if, in fact, you wouldn't rather like a much more broad treatment of your investment powers?

MR. VANIER: This is a way of looking at it. We want increased powers even if we don't think we will have to use them immediately.

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because we know we act in a field that interests the whole community, and due to our respect for the authorities we accept the control with pleasure because we think that it is in the public interest, providing the limitations are not too restrictive.

COMMISSIONER GIBSON: I am sure, sir, we agree with your general motivation about the public interest, and so on, but it is a question of what is the best way to set down the principles to protect the public interest. As Mr. Leman said, there are quite a lot of detailed restrictions in your Act. The sum of the securities are related to your capital, the amounts of the securities, they are related to your capital, and other limitations are related to the deposit liabilities and this should be sorted out and made into something simpler.

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MR. VANIER: I believe so. There is a certain historical background to this. The banks are much stronger now than they were in the past. You remember a time when there were 40 banks in Canada, and we have now only 8 commercial banks and 2 savings banks. I believe our banking system is very good as a whole, but in the first days I don't think conditions were as secure as they are now, and now I believe we could easily act in conformity with the public interest without all the restrictions you refer to, and I believe general terms may be more justified because our country has developed and our banking system has become much stronger than it was a certain number of years ago.

COMMISSIONER LEMAN: You feel our banking system is very good, and our near banking system not so good; is that it?

MR. VANIER: No. I believe they are very good. We have much respect for those institutions called near banks provided that our positions would be defined properly. We believe all of them render great service to the public. We do not take a mean look about that, but we think everybody should know exactly where he stands and we should draw the line somewhere.

COMMISSIONER BROWN: Talking about the investment powers, in the 1954 amending act there was nothing about this investment up to the 50 per cent of capital in reserves. That came in in the 1957 amendment.

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COMMISSIONER BROWN: Presumably at your request?

MR. RAINVILLE: I don't know. Perhaps this was inspired by the laws in the United States applying to banks. Very often the laws and restrictions like this in the United States apply mostly to small banks.

COMMISSIONER BROWN: But this was not a restriction.

MR. RAINVILLE: This was an additional power.

COMMISSIONER BROWN: This was an additional power and it was not a restrictive power.

MR. RAINVILLE: And we could buy preferred stock.

COMMISSIONER BROWN: You can buy that up to 15 per cent?

MR. RAINVILLE: Yes.

COMMISSIONER BROWN: But this wider power is up to 60 per cent?

MR. RAINVILLE: We have not used it yet.

COMMISSIONER BROWN: That was my next question, that in this 1957 amendment there were some items of supplementary information which we haven't got on your 1961 balance sheet, which show the breakdown between investments under section 59 and section 59(a). I was going to ask you what investments you have, in fact, made under 59(a)?

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COMMISSIONER BROWN: So you have not used that section of the Act at all?

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COMMISSIONER BROWN: How about the Quebec?

MR. FOUCAULT: We have about $1 million, and we are entitled to $1½ million.

COMMISSIONER BROWN: Is there any reason why you have not used this wider power?

MR. RAINVILLE: We don't find the need, but it would be useful if the bank formed a corporation to transfer its buildings -- or, the buildings of the bank to be owned by a separate corporation. In things like that it may be useful. So far we haven't found the need to take advantage of this section.

COMMISSIONER GIBSON: On the matter of your assets structure -- if no one has any more questions on mortgages -- I would like to ask a little about personal unsecured loans. This is a pretty new development with the savings, is it?

MR. VANIER: To a certain extent. We were sorry to see our own clients borrowing money from other institutions at a tremendous rate of interest and we thought it was not in their interests, so we can supply the same amount of money at a much better rate, and our experience is very good. So, we like to say to our depositors, when they are in need of money, that they can borrow from us at a rate that is reasonably. So, they now come to us, and in one single transaction they easily save $50 or $75 interest.

COMMISSIONER GIBSON: This is a service you are providing, or is it a new feature of your business that you are actually pushing?

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MR. VANIER: To a certain extent. We were sorry to see our own clients borrowing money from other institutions at a tremendous rate of interest and we thought it was not in their interests, so we can supply the same amount of money at a much better rate, and our experience is very good. So, we like to say to our depositors, when they are in need of money, that they can borrow from us at a rate that is reasonable. So, they now come to us, and in one single transaction they easily save $50 or $75 interest.

COMMISSIONER GIBSON. This is a service you are providing, or is it a new feature of your business that you are actually pushing?

MR. VANIER: Well, we advertise it in a general way because we like people to know what we are in a position to do, and it develops generally because people know their friends have borrowed at an interesting rate and they come to us and ask the same favour, and we do it. It is a service to the public at a reasonable rate.

COMMISSIONER GIBSON: What rate would that be?

MR. VANIER: 6 per cent plus the insurance and a service charge.

COMMISSIONER GIBSON: And this would work out a lot less than the credit union rates or finance company rates?

MR. VANIER: I am not very familiar with the rate of others, but certainly it is much better than the rates actually charged by many financial institutions.

COMMISSIONER BROWN: We have heard a lot of reference to this 6 per cent plus a service charge.

MR. VANIER: Those loans are insured. If a man dies before having reimbursed a personal loan, his estate pays. This is quite appreciated by the public.

COMMISSIONER BROWN: Oh yes, but what I was trying to get at is, what, in fact, is the rate when you take in all the charges connected with the loan?

MR. VANIER: We have compared and we come exactly in line with the commercial banks who charge the smaller rate.

COMMISSIONER BROWN: But what is the rate?

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COMMISSIONER BROWN: But what is the rate?

Is it 12 per cent?

MR. VANIER: Oh, no.

MR. AUDET: We would say the insurance would be half of one per cent, and the processing fees would be probably $1\frac{1}{2}$ per cent. So, altogether, excluding the insurance, but including the processing fees, it may be about $7\frac{1}{2}$ per cent.

COMMISSIONER BROWN: Is this done on a discounting basis or on a plus basis?

MR. RAINVILLE: A plus basis.

COMMISSIONER BROWN: Because there have been so many words bandied about, I just wanted to know about this.

MR. RAINVILLE: Yes.

COMMISSIONER GIBSON: You would like a little more leeway now for this business by raising it from 5 to 10 per cent?

MR. RAINVILLE: Yes, because it includes loans to religious corporations and the like.

COMMISSIONER GIBSON: It is the unsecured loans?

MR. RAINVILLE: Yes.

COMMISSIONER GIBSON: This is the definition?

MR. RAINVILLE: We make quite a lot of them.

MR. VANIER: On personal notes of institutions we lend big amounts of money without any security, and this takes quite a part of the amount that is available for that purpose. So, we would like to increase it.

COMMISSIONER GIBSON: You talk about having leeway for 10 per cent there and leeway for 60 per cent

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in mortgages. These are outside limits, I take it? I take it you would expect to have lots of room if you had that much leeway?

MR. RAINVILLE: Yes, I think we have enough for the present, at least.

COMMISSIONER GIBSON: But you see your institution developing on the asset side as a mortgage institution in a large way and to a lesser degree in making personal loans?

MR. RAINVILLE: That is true.

COMMISSIONER GIBSON: There is a strong trend?

MR. RAINVILLE: Yes. They used to say that banks were never ready to help anyone, and that you could go to a bank provided you did not need money; and now it is the other way round.

COMMISSIONER GIBSON: Everybody is trying to help everybody these days.

COMMISSIONER BROWN: On this question of mortgages -- and I meant to ask this question earlier -- presently you are limited to the lesser of $100,000 on any one loan or 60 per cent of the bank's valuation of the property. You want to increase this to the lesser of 5 per cent of the paid up capital or rest account of the bank or two-thirds of the bank's evaulation on existing property and 75 per cent of the bank's evaluation on new property. Do you find this $100,000 restriction limits your activities?

MR. RAINVILLE: Yes, we have demands on apartment houses, for example, and a large apartment house may be worth $300,000 or $400,000.

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COMMISSIONER BROWN: Would you not regard this as getting almost into the business loan field rather than the individual loan?

MR. VANIER: They are investments in real estate by people who are our clients.

COMMISSIONER BROWN: But they are really business investments by those people.

MR. VANIER: The savings have to carry a certain income. People who are not interested in business proper are interested in real estate, and perhaps there is a difference in this province from that in other provinces. In this province people are certainly more interested in investing in real estate for income purposes. I don't know whether you have noticed that, but if you scrutinize the problem you will find there are many persons in other provinces who invest in securities, in stocks and in this province they invest in real estate. So, we have to meet the requirements of people according to the local mentality.

COMMISSIONER BROWN: I was looking at the difference in attitude towards lending on a mortgage for a family to buy their own home and lending on a mortgage for somebody else to build apartments, to build it as a business venture: What proportion of your mortgage business would be to the individuals who you are helping to buy their own homes and this what could be called a near business operation on apartment buildings?

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I would like to make just a remark: If you notice in this province, and in this City of Montreal especially, there are many more tenants than in other cities of the same size. It means that a great number of people are tenants instead of property owners. So, since they are tenants they have to deal with a person who has invested in the real estate business. So, there are more people who have dwellings to rent and more people who agree to rent those premises instead of owing their property than in other cities -- Toronto, for instance. There are many more individual houses owned by their occupants in Toronto than in Montreal. This means people invest for earning purposes in real estate and they find tenants who agree to rent a place instead of owning a place.

MR. RAINVILLE: Our policy would be to make loans to the largest number of customers, and the amount which is left available for mortgage loans might be invested in large loans, but it is not in the bank's interest to make large loans instead of small ones because small loans bring more customers. That is the way we see it as a policy.

MR. AUDET: I would say the present limitation of $100,000 for one single loan means that, if we have the power to loan up to 60 per cent of our evaluation of the property, we are limited to an apartment house worth $175,000. Now, that is not a very large apartment house, so under the existing limitations we can say that we have very few loans which would be made on apartment houses. They cannot be on large apartment

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houses on account of the $100,000 limitation -- very few.

MR. VANIER: The land is becoming so expensive in Montreal that people cannot afford to buy unless they build quite a number of stories. So, we have larger apartments than we used to have, and on account of that it means that the general trend takes away a certain number of clients who used to borrow money from us who will not be doing so in the future on account of the investors are investing in bigger ventures.

COMMISSIONER BROWN: Have you any idea what proportion of your loans are to home owners -- how much have you got in mortgages?

MR. VANIER: Would it be one-tenth?

COMMISSIONER BROWN: You have got about $60 million in mortgages: What proportion of this would be to the home owner?

MR. AUDET: You mean single dwellings?

MR. VANIER: About 50 per cent.

MR. FOUCAULT: Ours would be higher than that; ours would be probably 85 per cent.

MR. RAINVILLE: But, the other half is not invested in apartment houses.

MR. AUDET: No; the house may be a duplex or a triplex -- is that what you mean?

MR. VANIER: I believe about half would be lent to individual homes and the other half to multiple homes, or to a building with multiple dwellings -- one, ten or twelve -- but very often it is two or three.

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COMMISSIONER BROWN: It is quite opposite to the implications contained in one of the parties that appeared before us earlier this week.

MR. VANIER: Very often a man who has built up a certain account of savings wants at a certain time to invest, and he will invest in a property where he will have his own home but wants a certain income from one or two tenants.

COMMISSIONER BROWN: This is what I wanted to find out. Thank you very much.

COMMISSIONER GIBSON: I was going to ask one other question about mortgages: Why are there so few N.H.A. mortgages in your portfolio. The Montreal City and District is one of the two banks that has any N.H.A. mortgages, I believe?

MR. VANIER: Yes.

COMMISSIONER GIBSON: Why is this -- why are they mostly conventional rather than N.H.A.?

MR. VANIER: I would dare say, speaking for myself, that we are not too keen about them because the term is too long, the margin of safety is very slim, and the procedure to take possession is very annoying. We have to do all the dirty work and then we are entitled to the insurance. We don't like to claim against bad debtors and then hand over the property to another in order to secure the cash. We have no trouble at all with loans made to individuals who build or who buy a property for their own personal use or for investment, but it is much more intricate with the other ones, and we believe the safety is very small

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in comparison to the others.

COMMISSIONER GIBSON: Yet you do make some N.H.A. loans?

MR. VANIER: Oh, yes, but we haven't made many these last years because we have a strong demand for the others and we give preference to the others.

COMMISSIONER LEMAN: Does this depend mostly on the way it is set up on the books? Has there been a high rate of foreclosure on the N.H.A. ones.

MR. VANIER: No, but the handling of them is not as easy as on the others.

COMMISSIONER LEMAN: And you foresee in the future that may be troublesome?

MR. VANIER: Since the government has reduced the margin of safety, we thought eventually we would have to make claims against borrowers that would be most unpleasant.

COMMISSIONER BROWN: Is this because the terms are too long?

MR. VANIER: The margin of safety is very slim.

COMMISSIONER BROWN: The percentage plus the term?

MR. VANIER: Yes. Very often a man who buys borrows the amount of cash he has to put down, and then he borrows the balance, so where is the safety?

COMMISSIONER BROWN: You would rather lend him the down-payment?

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MR. VANIER: At the end of the contract, when they have ceased paying, they may find they have got nothing left in their hands.

COMMISSIONER GIBSON: I would like to ask a few questions about your response to monetary policy and credit conditions. I take it that the reserve requirements that the law sets out for the Quebec savings banks are, in your eyes, associated purely and simply with the protection of the depositors and not with monetary control; that is a correct statement, is it?

MR. VANIER: I think so, yes.

COMMISSIONER GIBSON: Do you see any -- no, I should not ask that, because you say you don't see any purpose in thinking of such requirements in terms of monetary control?

MR. VANIER: No, I don't think it would act on us at all because we deposit our surpluses with the commercial banks, and then whatever is agreed between the Bank of Canada and the commercial banks has a certain reaction on us through the commercial banks.

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MR. RAINVILLE: We feel it, but it is a delayed action, and not to the extent that it affects commercial banks. When there is more money in circulation we get part of it and so do the other institutions, but if money is tight, well, deposits may not increase as fast as they used to, or they may decline a little.

COMMISSIONER GIBSON: Money is tight and you feel pressure to compete for a harder to get supply of business?

MR. RAINVILLE: Yes, but not to the extent that it affects the other banks, because they are the ones who would go and get and grant credit. If they have the money they can double or triple their loans. We cannot do that.

COMMISSIONER GIBSON: I do not know that we should go into this. They have a fixed cash reserve too which is basically rather similar to yours. They have to keep that reserve.

MR. RAINVILLE: That is true.

COMMISSIONER GIBSON: What I am trying to get at is, do you feel you do not get much direct effect if the central bank tightens up or loosens up? You do not feel it initially?

MR. RAINVILLE: No.

COMMISSIONER GIBSON: What happens when this fans out; how does it affect you and how does it work out when money gets easier, for instance because the central bank has put more cash into the banking system? How do you respond to that situation?

MR. RAINVILLE: Our deposits increase if there is more money available, but slowly although a little faster than it used to. We can say that we have so much more for mortgages but we may not have the demand for it, so we have to invest in bonds and things like that.

COMMISSIONER GIBSON: So if there is more money around you find it easier to get?

MR. RAINVILLE: Yes.

COMMISSIONER GIBSON: You look for other opportunities to use it?

MR. RAINVILLE: That is right.

COMMISSIONER GIBSON: This is the process that pushes interest rates on securities down?

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immediate credit as it does with commercial banks. We have to invest rather than expand our credits.

COMMISSIONER GIBSON: That is the position commercial banks are in. They can only extent credits if there is a demand.

MR. VANIER: Of course.

COMMISSIONER GIBSON: In fact they invest first because when they get extra money that is the thing they can do right away.

MR. RAINVILLE: If a man gets a loan from the commercial banks for $1 million he does not take that money out. He puts it somewhere in the bank, or in another bank, so that puts additional money into the banking system. He uses that money to pay off bills and this results in more money available for more credit in other banks.

COMMISSIONER GIBSON: Yes, providing the central bank puts the extra cash into the system to support additional loans.

MR. RAINVILLE: Yes, and it does not affect us in the same way because we can lend it only once, and that is all there is to it. Of course, we get some of the money which is available to other banks, some of which is deposited in our banks and other institutions. Of course, that is why oour deposits are affected and go up faster than they used to, for a while.

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MR. VANIER: It affects our liquid position first of all. We have quite a surplus and it would affect that rather than the credit.

COMMISSIONER GIBSON: In these circumstances would you go out and aggressively try to find a more stable money supply because money is harder to get?

MR. RAINVILLE: Yes. I think a stable money supply would be a good thing. Of course, it is hard to say what is necessary or how much money is necessary.

COMMISSIONER GIBSON: What I am trying to get is, if there is not so much money around would you make an extra effort to get it by perhaps raising your interest rates or putting on a savings campaign, or something of this kind?

MR. VANIER: I do not think that the rate on savings has much to do with the quantity of savings. That is the experience not only in Canada but in the United States. A war develops between institutions as to rates and in the United States they have come to the conclusion that it has not varied much at all. Therefore we do not think we can encourage savings by increasing the rate. We do not think it would have any effect.

COMMISSIONER GIBSON: In this case you are talking about in the United States was not the essential result the taking of a lot of business out of one group of institutions and put into another, and then the others responded and got quite a lot of it back. However, if one group pays a higher set of interest rates than another, do they not tend to get more business?

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COMMISSIONER GIBSON: What I am trying to get is, if there is not so much money around would you make an extra effort to get it by perhaps raising your interest rates or putting on a savings campaign, or something of this kind?

MR. VANIER: I do not think that the rate on savings has much to do with the quantity of savings. That is the experience not only in Canada but in the United States. A war develops between institutions as to rates and in the United States they have come to the conclusion that it has not varied much at all. Therefore we do not think we can encourage savings by increasing the rate. We do not think it would have any effect.

COMMISSIONER GIBSON: In this case you are talking about in the United States was not the essential result the taking of a lot of business out of one group of institutions and put into another, and then the others responded and got quite a lot of it back. However, if one group pays a higher set of interest rates than

MR. RAINVILLE: Yes, I would say so.

MR. VANIER: To a certain extent, yes.

COMMISSIONER GIBSON: If they all raise their rates there is not much difference.

MR. VANIER: That is usually what happens. If one tries to raise the rates the others will do so also.

COMMISSIONER GIBSON: You do not think it would help to encourage savings?

MR. VANIER: I do not think so. It might to a certain extent, but to a very limited extent in my mind.

COMMISSIONER GIBSON: Well, your general policy has not been particularly aggressive in the deposit area, I take it?

MR. VANIER: We try to be aggressive in services and to please the clientele.

COMMISSIONER GIBSON: Let us say in terms of interest rates you are not very aggressive?

MR. VANIER: No, we have not tried that and we do not have it in mind. I speak for myself, of course.

COMMISSIONER BROWN: Could we ask for a further development of this situation? Money gets easier so your deposits go up and you cannot use that right away, so you invest?

MR. VANIER: That is right.

COMMISSIONER BROWN: Then money becomes tight again and by this time the mortgage demands start to come along, but because interests have gone down and

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because money has tightened up the investments you have made have gone down in price. These temporary investments you have made, or whatever you did with the money, pay less. Does the result of a book loss inhibit you from extending your mortgages or do you regard yourself as locked in?

MR. VANIER: If money becomes tighter we can take care of it. Of course, there are certain withdrawals, but our cash position will take care of it and the daily inflow of money will take care of the balance. We stop making as many loans as we have been making and this has a certain effect, but we will not find ourselves in trouble because the inflow will take care of the decrease in deposits.

COMMISSIONER GIBSON: But in the meantime you have increased your investments?

MR. VANIER: Yes, we have increased our investments in the meantime.

COMMISSIONER BROWN: So your asset structure becomes locked in with a larger proportion of investments?

MR. RAINVILLE: That has not happened yet.

COMMISSIONER BROWN: How do you re-adjust to this situation?

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COMMISSIONER BROWN: So your asset structure becomes locked in with a larger proportion of investment.

MR. RAINVILLE: That has not happened yet.

COMMISSIONER BROWN: How do you re-adjust to this situation?

MR. VANIER: It works out very smoothly.

COMMISSIONER BROWN: Do you sell some investments?

MR. VANIER: The inflow of money would take care of all the withdrawals because the inflow is very considerable.

COMMISSIONER BROWN: You see, when money became easier and you received more deposits you said you increased your investments because mortgages were not immediately available.

MR. VANIER: That is true.

COMMISSIONER BROWN: This means of your whole asset picture you have a higher proportion of investment relative to mortgages than you had before?

MR. VANIER: That is right.

COMMISSIONER BROWN: My question is, when money becomes tight and before you have had an opportunity to readjust this to increase your mortgages, does the fact that your investments have gone down in price inhibit you from handling the mortgages?

MR. RAINVILLE: We have not found that situation yet because we are still below the limit allowed to us for mortgages, which is 40 per cent. We have never met that situation in our bank in any way.

COMMISSIONER BROWN: I am afraid you do not quite understand what I mean. You have said that when money becomes easier because the mortgage demand is not there you put it into

investments?

MR. VANIER: That is right.

COMMISSIONER BROWN: This presumably is the purpose of selling investments and putting that money into mortgages as soon as the mortgage demand increases.

MR. VANIER: Usually we do not sell. We limit our loans to the amount of cash available. We do not sell our investments. We will buy securities; short term securities just to take care of the gap, you see.

COMMISSIONER BROWN: In other words, when you get this extra cash your liquid securities represent that portion of your investment portfolio that you increased?

MR. VANIER: Yes.

COMMISSIONER BROWN: But just the short term?

MR. VANIER: Exactly. If you look at the figures we gave you will see that our position is very liquid and we also hold a quantity of bonds that are short term bonds, so by the lapse of time we recoup what we have lost as a result of the tight money. Besides that, all the mortgages are payable by month or quarterly investment. This means hundreds of thousands of dollars every month received.

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MR. VANIER: So this keeps us in a very

good position. We have not found ourselves in trouble at all in any case on account of that situation. Our liquid position and inflow of money is very satisfactory.

COMMISSIONER BROWN: I am not implying you are in trouble at any time. I am merely trying to find out what you do. I gather that when money becomes easier you just increase your liquidity portion by short term investments?

MR. RAINVILLE: Yes, very widely.

COMMISSIONER BROWN: And you balance back again as the opportunity for mortgage investment appears?

MR. RAINVILLE: That is right.

COMMISSIONER BROWN: It is a temporary move only?

MR. VANIER: That is the right answer.

MR. RAINVILLE: There is no wide movement in deposits. When money is tight deposits go down a little, but not much.

MR. VANIER: This shows the difference between commercial banks and savings banks. We handle the cash balances of our clients and not the hot money that might be in the hands of big depositors.

COMMISSIONER BROWN: Could we have a definition of this word "hot"?

MR. VANIER: Changes are very slow because, you see, as I told you we have 300,000 clients all with chequing accounts, so this means a small

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COMMISSIONER BROWN: They are planning to save money?

MR. VANIER: They are looking for safe-keepers of that money.

COMMISSIONER LEMAN: Perhaps you should give a list of those to Mr. Gibson.

MR. VANIER: Looking at this seriously, these people like to have their private accounts with a separate institution from those from which they secure their credit for business. This is good psychology. These individuals want to separate their personal and family affairs from their business affairs, so they keep their business balances with the commercial banks and their family and private balances with the Montreal City District Bank. We find this a nice concept of living.

COMMISSIONER BROWN: A question was asked about competition for savings. Why do you just pay the same on your savings accounts as the commercial banks pay on their savings accounts?

MR. VANIER: We might ask why commercial banks pay the same rate as we pay, because it is a fact, you know, that a few years ago they did not care about savings accounts. However, they have discovered that they are a nice thing to have.

COMMISSIONER GIBSON: That was quite a few years ago.

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COMMISSIONER GIBSON: That was quite a few years ago.

MR. VANIER: It was quite a number of years ago, yes, because I know they are very clever people and they did not take long to find this out.

COMMISSIONER BROWN: The point is this, these savings banks exist only in the province of Quebec.

MR. VANIER: Yes, unfortunately for the rest of Canada.

COMMISSIONER BROWN: In the rest of Canada the chartered banks have savings accounts. Whether the rate be at 2 3/4 per cent or something else, you are competing with the banks of the rest of Canada. What would happen if you went up to 3 per cent?

MR. VANIER: I suppose they would follow suit.

COMMISSIONER BROWN: You think that would happen over the whole of Canada?

MR. VANIER: I suppose so eventually.

COMMISSIONER BROWN: As a savings depositor in the rest of Canada I would say that it might pay us to have you put your rates up.

MR. VANIER: Perhaps so, but I believe we should discuss conditions with them before we do that. If we changed in Quebec I suppose the commercial banks would change in this province. If they changed in this province why would they not change in other provinces? I believe that everybody would follow suit. In the banking business, of

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course, everybody needs a spread between the cost of the money and the return on the money they invest. It would eventually probably lead to an increase in the rates on credit. I do not know that, but it might.

COMMISSIONER BROWN: I should like to ask you about one other subject: you mentioned competition from the organizations that do not pay any income tax. I think you would probably agree that if they were made subject to income tax they would probably adjust certain of their operations, so it would only be their surpluses that would be involved and subject to income tax, and because they are more scattered the surpluses would only be taxable in many instances at the lower rate of 20 per cent. Now, would you care to comment as to how this is offset for your banks by the fact that you do have a reserve which is accumulated and which is not subject to income tax?

MR. VANIER: Oh, no, we pay on everything. We pay taxes on our profits. Even if we keep them as reserve we pay taxes on that reserve, so we have already paid tax on the reserve that we find necessary to cope with the withdrawal of our depositors.

COMMISSIONER BROWN: Do you not also have a reserve set up in your Act which is not taxable?

MR. VANIER: Only the ones allowed by law.

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COMMISSIONER BROWN: That is my point, you have this which these other people do not have; they have the open reserve on which tax has not been paid.

MR. VANIER: This is becoming less and less. You know that. It has decreased considerably in the last few years.

COMMISSIONER BROWN: I am asking for your comment on the result of your having a reserve which you have accumulated and which has not been subject to taxes.

MR. RAINVILLE: These depend on the amount of investments we have in each category. That is the way that reserve is set up. It might increase if we had more investments in one type than in another. That is the way a reserve is set up. If we have a 5 per cent reserve in a particular type of investment it is limited to 5 per cent the next year. We do not have the 5 per cent balance that we had at the end of that year. We may decrease the reserve or increase it according to what we had at that time.

COMMISSIONER BROWN: But the fact does remain that there is a reserve there which has accumulated and which has not been taxed?

MR. VANIER: No, not accumulated; it is decreasing every year. There is only a certain amount on which a reserve is allowed as non-taxable reserve. That is decreasing from year to year

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COMMISSIONER BROWN: Let us leave out the word "accumulated".

MR. VANIER: It is not accumulative.

COMMISSIONER BROWN: I said "accumulated" reserves, not "accumulative". Let us leave out that word "accumulated".

MR. VANIER: It is not accumulated, it is a yearly allowance.

COMMISSIONER BROWN: Let us leave that word out and say you have a reserve which has not been taxed.

MR. RAINVILLE: Yes.

MR. VANIER: Yes, sir.

COMMISSIONER BROWN: You will agree with that.

MR. VANIER: Yes, but according to the rules which have become tighter and tighter , the amount we are allowed is rather smaller as time elapses.

COMMISSIONER BROWN: My point is that you do have a reserve which does not show in your balance sheet and which has not been taxed.

MR. VANIER: That is true.

COMMISSIONER BROWN: To what extent would you say that this offsets the other reserves which

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COMMISSIONER BROWN: To what extent would

these other organizations have which also have not been taxed?

MR. VANIER: I would say that it is not comparable at all and is much smaller than those that are tax exempt in other institutions as a result of the way it must be figured according to the rules of the Minister of Finance and the Inspector of Banks. They have changed the rules from year to year and have allowed a smaller proportion of investment according to the type of investment. We have a reserve but our reserves are taken into account.

COMMISSIONER BROWN: In addition?

MR. VANIER: Yes, as a matter of security. We have paid taxes already -- as you know, there are certain past earnings that are taxable on a certain basis if they exceed what is allowed on a non-taxable reserve, so we have paid or we are paying on a reserve that is allowed as a matter of security according to the type of investment, and that amount is rather small in comparison to the earnings or the profits in the other institutions.

Of course, I took the figures of the others but as far as I can note it is not a true comparison.

COMMISSIONER BROWN: But your assets have been going up every year?

MR. VANIER: Yes. Well, it depends. When the Attorney General -- when the government stated that such types of investments were not allowed to go to any reserve any more than any surplus had to be turned in to the regular profits of the year and taxed on the rate that was in operation for that year of taxation.

COMMISSIONER GIBSON: I wonder, Mr. Vanier, when you refer to this tax disadvantage -- have you any thoughts on how to correct the situation that is concerning you?

MR. VANIER: Well, my views on that are these; as I told you, I have no ill feeling against any institutions. I believe they are all very useful, but if you take a reasonable

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view of the situation you must admit that institutions who render services to the public in communities of a certain size are entitled to privileges and I believe that it is in the common interest for these -- it is in the interest of the common welfare that they should be allowed to function under privileged conditions, but what seems to be unfair is that these institutions who could provide services under a privileged system to smaller communities come to the bigger centres that are well provided with institutions paying taxes and they compete with them in that field, which seems less reasonable to my mind, so I think that they should be allowed to do it, but when they do it in communities that are fully provided for institutions paying taxes, they should pay taxes like everybody but they should be entitled to the privileges when they do act in communities where they render services that are not fully supplied by other institutions. This is my view on it and I believe it is reasonable.

COMMISSIONER GIBSON: As a practical matter, that would be a very hard line to draw.

We say in communities that have a population not exceeding so much that they should be entitled to act without paying taxes. I think that would be fair, but if they think that they could do business in big communities well provided with other institutions paying taxes, they could do the business anybody does provided they pay the usual taxes. I believe that that would be the fair way of drawing a line between

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institutions -- privileged institutions and institutions losing their privilege under certain circumstances.

COMMISSIONER BROWN: If they were competing with somebody who was already paying taxes?

MR. VANIER: Yes. I mean in big communities.

COMMISSIONER GIBSON: If they are competing with taxpaying institutions in the same locality you suggest that another criterion is whether it is a large city and I think you also imply that the size of the competing institution has something to do with it, too.

MR. VANIER: Yes, perhaps so. I do not want to be unfair, but you see if you look at the thing in a very unaffected way, some institutions will say, "Well, we are institutions of another type because we act between our members." Well, we act between our own friends when we act with our depositors; they are our friends and our members just as well. The only difference is that you become a member if you buy a licence at $5 a piece; you become a member then and you are entitled to do business with a bank that does not pay taxes.

When your business is over you say, "Well, I want to renew my licence and I will take by my $5 and I am becoming an ordinary man on the street who has to pay taxes." I do not think that that way of looking at the thing is very logical.

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I suppose if we could secure from our own clients the right of doing business with us without dispensing with paying taxes and provided they buy from us a certain permit that we would sell to them for a limited period of time for $5, $10 or $25, then we would do business with them because they would have become a member.

As soon as the operation would be over and they would have paid their loan they can take their $5, $10 or $25 and become a stranger, not a member. Now, this does not appeal to me as being logical, but I do not want to deny and I do not want to be mean.

I believe that in smaller communities we have wonderful institutions and they have developed a good spirit and they need help at these smaller communities by giving a service that was needed. I believe that they should be encouraged to do that, and even if they should be granted these privileges it is justified -- there are many institutions that have more depositors in the larger banks over the country. Well, they are in a position to respect the laws of the country like anybody else. There is no special need for an institution that would not pay taxes. That is the way that I look at it.

COMMISSIONER BROWN: It is very difficult in practice, though, to draw a line along the suggestions that you make. Who is going to decide that this community deserves a tax-free

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As soon as the operation would be over and they would have paid their loan they can take their $5, $10 or $25 and become a stranger, not a member. Now, this does not appeal to me as being logical, but I do not want to deny and I do not want to be mean.

I believe that in smaller communities we have wonderful institutions and they have developed a good spirit and they need help at these smaller communities by giving a service that was needed. I believe that they should be encouraged to do that, and even if they should be granted these privileges it is justified -- there are many institutions that have more depositors in the larger banks over the country. Well, they are in a position to respect the laws of the country like anybody else. There is no special need for an institution that would not pay taxes. That is the way that I look at it.

COMMISSIONER BROWN: It is very difficult in practice, though, to draw a line along the suggestions that you make. Who is going to decide that this community deserves a [illegible]

institution?

MR. VANIER: It is the size of the community. Everybody knows that as soon as a community has become a community of a certain importance that there are two or three or four banks that would immediately compete there.

COMMISSIONER BROWN: Then, would these institutions lose their tax-free privileges?

MR. VANIER: Well, they might not if they have vested rights. If they are organized and are in these communities before the others their rights should be respected, but if they do it the other way and come into certain places where they have never ventured, come into localities and be provided with institutions and say, "We are different, we are going to compete with you without paying taxes", it seems to me that it creates tension instead of helping the community. I believe in themselves they are wonderful things.

COMMISSIONER BROWN: As long as they do not compete?

MR. VANIER: As long as they keep in the spirit of the institution, which is ---

COMMISSIONER BROWN: You have made some comments in your brief about branch banking competition.

MR. VANIER: Well, that is fair because I believe that we have wonderful relations with the other banks, with the commercial banks and I believe our dealings are very pleasant. We

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deal with people who pay taxes as we do and they take our competition because we pay taxes.

COMMISSIONER BROWN: But there is an implication there that you think some of the branch bank competition is wasteful. I think this is in paragraph 193.

MR. VANIER: That is not the banks' fault; it may be our fault, or the fault of the other banks, if you opened a branch where we could not.

COMMISSIONER BROWN: You say:

> "Excessive branching by commercial banks raises serious doubt as to the possibility and justification of such intense competition ...."

MR. VANIER: Now that is a general remark; it is up to the interested parties to decide whether they are going to run the risk of opening a branch where they should not; if they do it, they do it at their own risk.

I believe in some instances there are places where there are many banks, indeed, and I believe in competition, I believe that it is a good thing, but it corrects itself by the fact that the one that does not succeed because they have invaded fields that they should not have, that they will have reaped the benefits or the bad consequences of their initiative.

COMMISSIONER BROWN: There is no indication

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COMMISSIONER BROWN: There is no indicatio

this is against the public interest.

MR. VANIER: No, I do not think it is. I think it is against the interests of the institutions concerned, but it might be a factor.

COMMISSIONER BROWN: I was wondering why you were drawing it to our attention.

MR. VANIER: Well, it mightnot have been necessary; I think you could have discovered that yourself! Like many of the other things we say, I believe you are well informed and when we say something we do it ---

COMMISSIONER BROWN: On this question of competition again, do you have the same banking hours as the ordinary commercial banks?

MR. VANIER: No.

COMMISSIONER BROWN: What banking hours do you operate.

MR. VANIER: We are open in the evening because we want to serve the family and we open in the evening because we want to keep in contact with the family, and they work during the day and they cannot do business during the day and come in the evening, and we do that in order to accommodate them.

COMMISSIONER BROWN: All of your branches?

MR. VANIER: All of them.

COMMISSIONER BROWN: Has this been going on for a long time?

MR. VANIER: Since our inception in business.

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MR. VANIER: Since our inception in business.

COMMISSIONER BROWN: What are your banking hours, just for the record?

MR. VANIER: Ten to three in the mornings, seven to eight in the evenings, five days a week, Monday through Friday.

MR. FOUCAULT: Our bank follows the regular banking hours.

MR. VANIER: Montreal is becoming a big city and people who have their work downtown have to cover two or three or four miles before reaching their homes, so it is not easy to transact all their business in the commercial centres.

COMMISSIONER BROWN: Do you find you do a lot of business in this seven to eight evening hour?

MR. VANIER: Oh yes; we find that it is highly appreciated, and not only that, but people come and pay their bills at our offices instead of sending them in by post or going to the various offices to pay their bills. We accept them and we accommodate them by receiving them at our offices.

COMMISSIONER BROWN: This has been going on since you started in operation?

MR. VANIER: Yes, it has always been our policy and it is highly appreciated by the public.

COMMISSIONER BROWN: This is at all your branches?

MR. RAINVILLE: Except the main office.

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MR. VANIER: Yes, because it is located in a business centre and there would be no use for that.

COMMISSIONER LEMAN: Considering that you feel that some of the near banks have invaded the banking field -- this is in some of your last recommendations -- you would like to become a near bank, too, in part would you not?

MR. VANIER: We are very much a bank as we are.

COMMISSIONER LEMAN: I see. You would like to become a near bank in addition to that?

MR. VANIER: I do not grasp your remark.

COMMISSIONER LEMAN: I got the impression that you felt that these near banks have gone into the banking field, and in retaliation you say that you would like to go into the near bank field by asking for the privilege of doing some trust business, the operation of a mutual fund, and what is the third one?

COMMISSIONER BROWN: Real estate fund and life insurance.

COMMISSIONER LEMAN: And even some life insurance. Have you planned the things in your mind as of now? Do you know what kind of a mutual fund you would want to operate, would it be for investment in common stocks?

MR. VANIER: No, we have not got the power so we do not give much time to that. Of course, the questions that were set in your questionnaire

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called for remarks of that sort, so we thought that we would mention the things we could handle if the powers were enlarged, but I believe the best way would be to try to deal with every section of the business and make it clear what institutions of a certain category should be limited to a certain number of activities, but since there is general confusion it seems just as well to add to it!

COMMISSIONER BROWN: You are not suggesting these are really banking functions, that they really fall within the definition of banking functions?

MR. VANIER: It shows only that it would add to the confusion -- I believe this personally -- but if the country wants it that way, well, let us do it like everybody, but I do not think it is a good policy, generally speaking.

COMMISSIONER BROWN: We can wash this all out, then?

MR. VANIER: Not necessarily, but if you do that with the others, you might.

COMMISSIONER BROWN: As reciprocation. Now, one small point about your bank. You are a member of a clearing house here?

MR. VANIER: Yes, we are a member of the clearing house for over 50 years; we are a full member and pay our share.

COMMISSIONER BROWN: And this works out very satisfactorily?

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COMMISSIONER BROWN: And this works out very satisfactorily?

MR. VANIER: Yes, very satisfactorily. We have been regular members now for over 50 years or so, and it costs what it costs the others.

MR. RAINVILLE: But they could cancel our membership if they wanted to.

COMMISSIONER BROWN: Could you cancel theirs?

MR. RAINVILLE: It is the organization.

COMMISSIONER BROWN: But you are a full member.

MR. RAINVILLE: We are full members, but there is that restriction in the regulations.

COMMISSIONER BROWN: That they could cancel yours?

MR. RAINVILLE: Yes, that is right.

COMMISSIONER BROWN: So, you are not quite a full member.

MR. RAINVILLE: They call us full members with full privileges, but there is doubt.

MR. VANIER: But in paying the bills we become full members, anyway!

COMMISSIONER LEMAN: What sort of bad things would you do that would get you out?

MR. VANIER: I do not know; perhaps if we drew our deposits out from the other banks!

COMMISSIONER BROWN: You charge the same service charges as the commercial banks on your savings accounts, cheques and so forth?

MR. VANIER: Yes, I believe it is equivalent. I am not well posted on the way the others are

handled, but I believe we are ---

MR. RAINVILLE: We are about the same.

COMMISSIONER BROWN: Are they the same?

MR. RAINVILLE: The same for almost everything; there are very few exceptions, so we might say the same.

MR. VANIER: The better answer, I think is the same.

COMMISSIONER BROWN: Did you follow them or did they follow you?

MR. RAINVILLE: We followed them.

COMMISSIONER BROWN: I wondered because you imply that was on saving accounts.

MR. VANIER: We have restrictions on savings accounts and the commercial banks have no particular restrictions as to their savings accounts.

COMMISSIONER BROWN: What are these restrictions?

MR. VANIER: Well, we are limited to a certain sort of investment, but apparently, I believe, the commercial banks use any commercial funds or savings funds for commercial purposes; we cannot do.

COMMISSIONER BROWN: They cannot go into mortgages the same as you?

MR. VANIER: No, but we are allowed to do mortgages because it seems to be appropriate to do those, and they do commercial credit with commercial plants, but they add to that whatever

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they gather in savings. This is no complaint; it is just a remark.

COMMISSIONER BROWN: Would you consider it quite fair if it was suggested that the commercial banks could invest in mortgages up to a proportion of their savings accounts?

MR. VANIER: From a general point of view, I believe that the main object of the chartered banks or the commercial banks, I believe that their main purpose is to grant short term credit to trade and industry and I believe this is a very important function and I believe that is their own.

COMMISSIONER BROWN: In the rest of Canada there are no savings banks?

MR. VANIER: We do not look for that because I believe they are better equipped to look after that, and they do it well, but I reiterate that the mortgages are a type of credit that has nothing to do with trade; it has to do with savings and with investment -- and perhaps this is the wrong term -- with venture.

If you borrow money from a commercial bank in order to produce goods, you reimburse with the profits from the goods you have manufactured, but if you make a loan in order to buy a property, well, you will not reap from that investment enough money to refund the money -- it will take at least 10 or 15 years or perhaps 20 years before you can draw from the venture sufficient money to reimburse the funds, so it is a credit, but it is another type

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of credit and we believe that we are well equipped to do this because we have savings always available for withdrawals, so I believe that the mortgage business is something which I believe is appropriate to a savings bank and I believe short term credit is really credit appropriate to commercial banks. They do very well with their business and I believe we do ourselves very well, too.

COMMISSIONER BROWN: In the rest of Canada there are no savings banks?

MR. VANIER: I believe they should have, and we will help them to build some if they want any. I do not say that in a spirit of hostility to commercial banks, but just because we feel they should meet certain requirements.

COMMISSIONER BROWN: The commercial banks have roughly $80 million in savings accounts in Canada.

MR. VANIER: Yes.

COMMISSIONER BROWN: And do you think that any portion of this should be directed to go into mortgages, the same as you think it is good for savings?

MR. VANIER: I believe that if they want to use it for commercial purposes that they should do it. It would be just as well, because they are strong institutions and I believe that they should give security to the public. I just mention that we have submitted certain restrictions and that we are not without some merit in running our

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business properly and we do not complain too much about that.

COMMISSIONER BROWN: Do you think it would be all right for them to go into mortgages -- for some of these savings accounts?

MR. VANIER: Would it be to go into the mortgage business or be forbidden to use the deposits for commercial business? If they are allowed to do mortgage business they may be forbidden from using the savings accounts for commercial purposes, but I don't think they should do both things. If they use the savings for commercial business, because it is their main business, then it may be justified, but then they should not do exactly on top of that the kind of business we do. That is the way we look at it.

COMMISSIONER GIBSON: As a matter of fact, the chartered banks are in the mortgage business in so far as N.H.A. mortgages are concerned in a sizeable way now.

MR. VANIER: Yes, but I believe it was done in a period of emergency, and they were asked to do it as a service to the community. I do not think they like it very much.

COMMISSIONER GIBSON: Well, it has happened, sir.

COMMISSIONER BROWN: Tney were told to like it.

MR. VANIER: But has it happened at the request of the authorities in order to help the people in a period of emergency? I believe in ordinary circumstances other institutions or near banking

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MR. VANIER: But has it happened at the [illegible] in a period of emergency? I believe in ordinary [illegible]

institutions do it well too. I believe other institutions could take care of that form of credit. I believe if the commercial institution were to limit itself to short-term credit it would be better, because they do it well and it is badly needed by our country. Especially since we have to compete with the common market, I believe it is more useful than the other.

COMMISSIONER GIBSON: I am not quite happy with the answer you gave about these recommendations about the mutual fund and a real estate investment fund, and so on. It does seem to me that your record shows you have quite radically changed your business in the last decade. Ten years ago you were not in the mortgage business to any really large degree, and now you are in it and expanding in this business, and you say this is good.

MR. VANIER: Yes.

COMMISSIONER GIBSON: I have no doubt it is, but are not the suggestions you make here the trend of things? Are they not also financial services?

MR. VANIER: The American savings banks do it.

COMMISSIONER GIBSON: Yes.

MR. VANIER: So, if you wanted suggestions, we have made them for what they are worth. We are not so keen about it, provided we would receive fair competition from everybody in our own field.

COMMISSIONER GIBSON: But do you not think this is logical?

MR. VANIER: Well, if it is logical in the

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COMMISSIONER GIBSON: But do you not think this is logical?

general confusion, yes.

COMMISSIONER GIBSON: Do you think it is logical you should have gone into the mortgage business?

MR. VANIER: Oh yes, most logical because this is exactly the kind of credit savers need. I believe you will agree with me on that point.

COMMISSIONER GIBSON: I do not disagree with you, but I don't know why you say it is not logical you should do these sort of things?

MR. VANIER: I did not say it is not logical. I say it is particularly logical under present circumstances. It may be less under other circumstances. That is all I mean. But I believe there are things we could easily handle with benefit for our clientele, since they are offered by others who are subject to no limitations at all. So, why would not we do it? We are in a position to do it just as well and just as profitably for ourselves and the clientele.

MR. RAINVILLE: And for the government too because we pay taxes.

MR. VANIER: We are quite an associate of the government.

COMMISSIONER BROWN: Would you be in favour of the mutual fund people accepting deposits?

MR. VANIER: Well, if they are operating according to your definition, but I see no harm in receiving deposits providing the only use they could make of the deposits is to allow the owner to withdraw them, but if they make them in order to secure funds for banking purposes, then they should not. I believe

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my definitions are not so bad after all. I was glad to receive your criticism, and I see that I now have more confidence in them than I had this morning.

THE CHAIRMAN: (Translation from the French) Mr. Vanier, thank you very much for accepting our invitation and for submitting such an interesting brief which will receive our closest consideration.

MR. VANIER: (Translation from the French) I thank you for your kind words, Mr. Chairman, and particularly for expressing them in French.

THE CHAIRMAN: We shall now adjourn, and the next meeting of the Commission will be held on Monday, June 4th, at 9.15 A.M. in Fredericton, New Brunswick.

---- Adjournment.

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Royal Commission on Banking and Finance

Hearings held at Montreal

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SUMMARY

Purpose of Brief: 1. The purpose of this brief is to present a complete and detailed picture of the Quebec savings banks. Particular attention has been given to the topics suggested for discussion but care has been taken to avoid unnecessary details.

Monetary Policy: 2. The Quebec savings banks believe that, since the Commission will receive from other sources more complete data on this subject, they should limit themselves to the comments they consider of special importance.

3. Generally speaking, monetary policy as presently applied is satisfactory. But, although monetary policy must be kept flexible, it cannot be counted upon to settle all economic problems. A close coordination of monetary and fiscal policies is also necessary.

Thrift and its Role in the Economy:

4. Much has been said about the importance of thrift, its role in the economy, how and why it should be encouraged. These things should be remembered and more efforts spent to encourage the thrifty.

Capital Market:

5. A properly functioning capital market should insure the financing, at reasonable conditions, of the various governing bodies, public and private enterprises.

6. The allocation of resources should be done only when, and to the extent, necessary.

Financial System:

7. The financial market can be judged to

function adequately if it helps to maintain a satisfactory rate of development of the country's economy, to insure stability of prices, to provide the financial resources necessary for the establishment and expansion of enterprises and finally to assure a continued prosperity and a high standard of living f or most citizens.

SECTION I - GROWTH AND STRUCTURE OF THE QUEBEC SAVINGS BANKS

Origin of the Quebec Savings Banks:

8. Prior to the establishment of The Montreal City and District Savings Bank there had been a Savings Bank in Montreal, but it was in the throes of liquidation and investigation by a Royal Commission.

9. People did not have much confidence in Banks and the commercial banks were not interested in the savings of the common people. The Archbishop of Montreal, on the advice of public spirited businessmen, called upon a group of seventy-five outstanding citizens for their help in establishing an institution to promote thrift. They founded The Montreal City and District Savings Bank which started its operations on May 26, 1846.

10. The Caisse d'Economie de Notre-Dame de Quebec, now called The Quebec Savings Bank, was established on May 21, 1848.

11. They were, at first and until 1871, mutual and philanthropic institutions operating under the general "Savings Banks Act of 1841".

Change from Mutuals to Stock Corporations:

12. When Confederation was established in Canada banks and banking came under the purview of the

Dominion Government and, in 1871, the Quebec savings banks ceased operating as mutuals and were granted Royal Charters.

Capitalization:

13. The capitalization of The Montreal City and District Savings Bank was set at two million dollars and that of The Caisse d'Economie de Notre-Dame de Quebec at one million dollars.

Assistant Receiver General for the District of Montreal:

14. In 1871, The Montreal City and District Savings Bank was appointed Assistant Receiver General for the District of Montreal and continued to discharge this important function until 1935, when the Bank of Canada was established. The personnel of the Assistant Receiver General for the District of Montreal, which had been recruited from the ranks of The Montreal City and District Savings Bank, joined the Montreal Office of the Bank of Canada.

Branches and Personnel:

15. The Montreal City and District Savings Bank has 55 branch offices, all on the Island of Montreal except one, and a staff of 800 full time and 126 part-time employees. It owns all its branch buildings.

16. The Quebec Savings Bank has 19 branches, all in the City of Quebec and suburbs and its staff numbers 139.

Legislation Governing Operations of the Quebec Savings Banks:

17. From 1871 to 1948, there were no major

changes in the laws. In that year, the savings banks were authorized to make mortgage loans and personal loans.

18. The 1944 revision of the Quebec Savings Banks Act defined more clearly the areas where each of the two savings banks could operate.

19. In essence, the present "Quebec Savings Banks Act" parallels closely the Canadian Bank Act which regulates the commercial banks.

General Powers:

20. The act deals with the matters usually found in legislation of this kind. Many of the subjects covered need not be commented upon but others deserve attention since they give an accurate picture of the conditions under which the Quebec savings banks operate.

Statutory Limitation of Branch Locations:

21. The Act defines the meaning of "District of Montreal" and "District of Quebec" for the purposes of the Act and the judicial districts comprised in the area where each bank is authorized to operate.

Cash and Additional Reserves:

22. First reserve must be equal to at least five per cent of the deposit liabilities of the bank and must be in the form of notes of the Bank of Canada, or deposits with the Bank of Canada or with the chartered banks.

23. Secondary reserve must be equal to at least 15 per cent of the bank's deposit liabilities. This reserve must be in the form of notes of the Bank of Canada, deposits with the Bank of Canada or with the chartered banks, securities of or guaranteed by the

Government of Canada or of a province.

Unrestricted Investments:

24. The savings banks, after complying with the above reserve requirements, are authorized to invest freely in the securities of or guaranteed by the Government of Canada or the provinces thereof, the United Kingdom and its colonies, the Government of any country of the British Commonwealth, the Government of the United States or of any of the States, Canadian Municipal corporations, school corporations in Canada whose revenues are derived from taxes, securities of ecclesiastical or religious corporations incorporated in Canada, of Fabriques de Paroisse or Syndics issued under the Parish and Fabrique Act of the Province of Quebec, hospital or sanatorium corporations in the Province of Quebec and Canadian Railway equipment securities.

Securities in which Investment is restricted:

25. In this group are included the bonds, debentures and first preferred shares of Canadian corporations meeting certain requirements, the shares of any Canadian commercial bank and other securities approved by the Treasury Board. The total book value of above investments must not exceed 15 per cent of the bank's deposit liabilities.

26. Since 1957, the Quebec savings banks have been permitted to invest in the securities and shares of Canadian corporations, not in default of principal or interest, provided the aggregate value of such investments does not exceed 50 per cent of the paid-up Capital and

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Rest Account of the Bank.

Mortgage Loans:

27. Savings banks may lend on mortgages covered by the National Housing Act and on conventional first mortgages.

28. The following restrictions apply to loans in the last category. Each loan must not exceed the lesser of $100,000 or 60 per cent of the bank's evaluation of the property, and there must be a building on the property of which at least one half of the floor space is used for residential purposes.

Secured Loans and Advances:

29. Savings banks are not allowed to discount commercial paper.

30. Loans may be made on the securities in which the bank may invest freely and, under certain conditions, on the shares of a commercial bank or the securities of a corporation in the restricted group.

Unsecured Loans:

31. The savings banks may lend money, without security, to the Government of Canada or any province, to Canadian municipalities, school corporations, religious corporations, Fabriques de Paroisse, hospitals or sanatoria in the Province of Quebec and, under certain conditions, to other Canadian corporations.

32. Personal loans may also be made up to $5,000.

33. Total amount of unsecured loans must not exceed 5 per cent of the bank's deposit liabilities.

Bank Premises:

34. The banks may own all the real estate

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34. The banks may own all the real estate

necessary for their present or future operations. But, whenever a property is not required for the use of the bank, it must be sold within a period of seven years.

Interests and Charges:

35. The banks are not allowed to charge a rate of interest or discount higher than 6 per cent on loans, except mortgage loans. Rates for collection charges are also specified.

Analysis of Banking Functions:

36. A bank may be defined as an institution which deals in money and credit and the principal operations of which are to receive, keep and pay, borrow and loan capital in the form of money.

37. In the past, the functions of banking seemed clear enough in the minds of most people. With the advent of new types of financial institutions and their invasion of the banking field, the question has been raised. These institutions add to the confusion by pretending that, since they do not call themselves "banks", their operations are not banking operations. Such superficial reasoning does not change the facts.

Controls and their Purpose:

38. Most countries exercise close control over banking. The main reasons being the protection of the savings of the individuals and the importance of the role played by the banks in the economy of each nation. Such controls are necessary, but they should equally apply to all institutions who receive deposits from the public. The Quebec savings banks are not opposed to

supervision and control per se, but they object to excessive restrictions and to discrimination which create unfair advantages for certain categories of their competitors who have invaded the banking field. In addition, some competitors are tax exempt and that gives them a tremendous advantage.

The Functions of Savings Banks:

39. The Quebec savings banks consider that, as such, they have two main objectives:

(a) to insure the highest degree of security for the monies entrusted to them;

(b) to provide a complete financial service to the individual and the family.

Legislation Governing Savings Banks Operations:

40. Generally speaking, the Quebec Savings Banks Act compares favourable with the laws governing savings banks in other countries, but the powers granted to our own savings banks could advantageously be enlarged. This would allow the Quebec savings banks to fulfil their proper role and better serve their customers.

Reserve Requirements:

41. Present reserve requirements are more than sufficient. Authorities on the subject and students of banking agree that an increase in requirements, if applies to savings deposits, would serve no useful purpose.

Possible Additional Services:

42. In addition to the specific changes recommended by the Quebec savings banks, it would be

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Possible Additional Services:

42. In addition to the specific changes recommended by the Quebec savings banks, it would be

advantageous that they be allowed to render additional services to their customers, such as the sale of savings Bank Life Insurance, the establishment of their own Mutual Fund, the establishment of a Real Estate Investment Trust with sales to or participation by depositors, and the handling of trust accounts for their depositors.

PROPOSED AMENDMENTS TO THE QUEBEC SAVINGS BANKS ACT

Section 12 -- Qualification of Directors:

43. Because of the large increase in the market value of the Quebec savings banks' shares in recent years, it might be financially impossible, under the present statutory requirements, for many candidates otherwise qualified to be elected to the Board of Directors. The savings banks therefore recommend that Section 12 of the Act be modified, in order to reduce to 100 the minimum number of shares required for qualification as a director.

Capital Stock:

44. It seems advisable that the Quebec savings banks be authorized to split their shares in order to make them more accessible to small investors, and that no par value shares be substituted to par value shares.

45. Price limitation on the issue of new share capital should be removed and the price at which new shares may be issued should be fixed by the Directors of the bank.

Section 59 -- Bonds of Public Utility Companies:

46. The savings banks recommend that bonds of

[illegible]
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Section 59 -- Bonds of Public Utility Companies:

46. The savings banks recommend that bonds of

large public utilities, which are now included in the group of restricted investments, be included in the group of unrestricted investments under certain reservations. They also recommend that the present 15 per cent limitation, imposed by section 59 of the Act, be raised to 20 per cent of deposit liabilities.

Section 63 --(g) - Loans and Advances without Security:

47. Because of an expected increase in the demand for loans by Religious Corporations, Syndics or Fabriques de Paroisse, and for Personal Loans, the banks recommend that the present limitation to 5 per cent of deposit liabilities, for aggregate amount of unsecured loans, be increased to 10 per cent. Because of possible creeping inflation and other reasons, the limitation to $5,000, for any one personal loan should be raised to $10,000.

Section 64 - Mortgage Loans:

48. A large increase in the demand for mortgage loans, in coming years, is expected in the Montreal and Quebec areas. For this reason, the Quebec savings banks recommend that the present 40 per cent limit to deposit liabilities be increased to 60 per cent, excluding loans made under the National Housing Act. Also that the statutory limitation, for each loan, be increased as to the amount and the valuation percentage, and that the residential requirements be removed. The savings banks also ask the authorization to make other than first conventional mortgage loans, with certain limitations.

Policy in Regard to Opening of New Branches:

49. A survey is made of the density of population within a half mile radius of the intended location, and consideration given to the number of competitors in the area and to other important factors.

50. The time required to reach a profitable stage in operations varies considerably and no precise answer can be given. Decision for the establishment of a branch is based on experience in weighing these factors and no right rules can be counted upon.

Statutory Limitation of Branch Location:

51. Territorial limitation has certain advantages but should apply also to other categories of financial organizations seeking savings deposits. A certain density of population is necessary for a branch to operate profitably within a reasonable period of time. Too intense competition may result in unprofitable branches for all institutions concerned.

Internal Organization of the Quebec Savings Banks:

52. Each savings bank is managed by a Board of Directors who make by-laws with respect to any matter concerning the policies of the bank and the administration of its affairs. They are chosen for their experience and are responsible to the shareholders. They may appoint as many officers and employees they consider necessary.

53. The permanent staff of each bank consists of the executive officers, heads of departments, branch managers and clerical workers.

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Executive Officers of The Montreal City and District Savings Bank:

54. The executive officers of this bank are the General Manager, the Assistant General Manager, the Chief Accountant, the Executive Secretary and Manager of New Business Department, the Chief Inspector and the Comptroller. The duties and responsibilities of each officer are detailed in the brief.

Internal Control, Inspection and Safeguards:

55. A yearly audit is made of each branch by the Inspector and his staff. A continuous checking is made in all sectors of the bank's operations. Experience concerning fraud and dishonesty, compares very favourable with other institutions. To increase the efficiency of the personnel and safeguard against possible losses due to incompetence, all employees attend training courses.

Budget and Reports to the Board of Directors:

56. An annual budget is prepared by a special committee. Monthly report of expenses, quarterly reports on earnings and expenses, and projection of the probable earnings and expenses for the coming five years are submitted to the Board of Directors.

Executive Officers of The Quebec Savings Bank:

57. The executive officers of this bank are the General Manager, the Chief Inspector, and the Secretary and Chief Accountant. The duties and responsibilities of each officer are detailed in the brief and most of the remarks in regard to control, inspection and safeguards in The Montreal City and

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District Savings Bank also apply.

Shareholders' Audit:

58. Two auditors, who have been chartered accountants for at least six years, are appointed by the Shareholders at the Annual Meeting. They make an examination of the Head Office cash and the securities and loans, review reports of internal inspection and satisfy themselves that the procedure is adequate and the inspection methods satisfactory. They submit, at end of fiscal year, a certificate to that effect to the Directors of the bank.

Government Inspection:

59. The Inspector General of Banks, appointed by the Governor in Council, makes a yearly examination of the affairs of the bank to ascertain that the provisions of the Quebec Savings Banks Act are observed and that the bank is in a sound financial condition. He reviews the periodic reports submitted by the bank to the Minister of Finance and the Bank of Canada.

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SECTION - II - ASSET MANAGEMENT

Policies and Practices Relative to Cash and Liquid Reserves:

60. The Quebec savings banks keep a Cash Reserve of approximately 10 per cent of their deposit liabilities as compared to the 5 per cent minimum required by the Act.

61. Holdings of Government of Canada and Provincial bonds exceed by far the 15 per cent deposit liabilities also required by the Act.

62. The Cash maintained in Bank of Canada is essentially to meet Clearing commitments. The savings banks also have in safekeeping with the Bank of Canada large amounts of Government of Canada Bonds pledged as collateral for possible advances. They have seldom availed themselves of these loan facilities.

63. The Savings Banks have a good portion of their Cash Reserve on deposit with the chartered banks.

64. Factors which favourable influence the availability of reserves are: an increase in deposits by the public, repayments on loans, matured bonds and coupons from bond investments.

65. Conversely, important withdrawals by depositors adversely affect these reserves.

66. Excess over normal reserve is invested. Any deficiency is replenished by calling back Day-to-Day Loans or selling short term securities.

67. Changes that might be contemplated in regard to cash and liquidity requirements for the purpose

of tightening control over money and credit would not, if applied to the Quebec savings banks, serve any useful purpose or appreciably increase the effectiveness of monetary policy.

68. Any change of that nature should be restricted to commercial banks and other financial institutions whose operations strongly influence the volume of money and credit.

Investment Policies:

69. The savings banks always have in mind their responsibility as custodians of the public's savings, and their investment policy is determined accordingly by the Board of Directors after consultation with Management.

Scope of Lending Powers:

70. Developments in recent years have rendered lending powers in mortgages and personal loans too restrictive.

71. Savings banks wish to keep their identity as savings banks and are not interested in making loans to industry and commerce. They prefer to provide full banking services to the individual and the family.

Mortgage Loans:

72. Mortgage loans, especially conventional mortgages, are nearly as liquid as bonds because of the regular instalments and the relatively short term of the loans, a large number of which are for five years.

73. The banks believe that a secondary market for mortgages would be advantageous.

74. They feel justified in asking for amendments to Section 64 of the Act and would like to obtain at least the same lending powers, in the mortgage field, as their competitors.

Personal Loans:

75. Personal loans are requested in ever larger numbers and amounts, and present restrictions should, in the banks' opinion, be decreased. There is a growing tendency to borrow for large consumer expenditures rather than to save for them. Thus the savings process has become the repayment of the loan after the purchase has been made, instead of the building up of the account prior to the purchase.

Investments in Securities:

76. The Quebec savings banks' investments in securities have been mostly in Government, Provincial and Municipal Bonds. They also have, in lesser amounts, corporate bonds and bonds of Religious Corporations and Fabriques de Paroisse. Most bonds mature within ten years.

POLICIES AND PRACTICES WITH RESPECT TO MORTGAGES AND LOANS

Conventional Mortgages:

77. Conventional Mortgages are usually made for terms of five to twenty years and repayable by semi-annual instalments of 2½ per cent on capital, plus interest, or by monthly instalments amortized over a period not exceeding 20 years.

78. For five year loans, if repayments are made regularly and everything is in order, each loan

is renewed for another five years and this procedure is repeated at the end of each succeeding five year period until the loan is fully paid.

79. Applications are screened by the Mortgage Department and a special committee and submitted to the Board of Directors.

N.H.A. Mortgages:

80. These are insured mortgage loans subject to Government regulations and amortized, by monthly instalments, over periods from 20 to 35 years.

Loans against Collateral Security:

81. These loans are made to individuals, stock brokers and investment dealers, and are callable on demand. Day-to-day loans are made to investment dealers, on a four hour call, and are secured by Treasury Bills and Government of Canada bonds maturing within three years.

82. Loans against collateral, up to $25,000 are approved by the Chief Accountant or his Assistant; above that amount, by the General Manager or his Assistant. All loans of $5,000, or over must be confirmed by the Board of Directors.

Personal Loans:

83. These loans are for periods not exceeding three years. Loans, up to $2,000 are approved by the Manager of the Personal Loans Department; above that amount, by the Comptroller. They are confirmed by the Board of Directors. Losses are small.

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Loans to Religious Corporations, Syndics and Fabriques de Paroisse.

84. These loans are made to religious corporations of all creeds and nationalities, usually for a maximum term of ten years; additional protection is secured through a first mortgage and pledges from members of the congregation.

85. Loans to Syndics are covered by a levy or reprtition on the properties owned by Roman Catholics in the parish.

86. Fabriques de Paroisse, when applying for loans, must comply with strict regulations from their Archbishop.

Credit Shortage:

87. When credit is in short supply, requests are scrutinized more closely. The savings banks try to satisfy the largest number of borrowers rather than making a few large loans.

Lending Rates:

88. The savings banks' lending rates are generally in line with those of the other banks. This policy does not apply to mortgage loans.

89. Changes in economic conditions, so far, have not been accompanied by any noticeable difference in the demand for funds. Because of the 6 per cent ceiling, the spread in rates has been narrow and thus the rate has never been an important factor.

90. The 6 per cent ceiling appears too low and should be revised upwards.

SECTION - III - LIABILITIES

Deposits by the Government of Canada:

91. They represent purchases of Canada Savings Bonds by the public and allotments, to the savings banks, of Government of Canada issues. They are gradually withdrawn by the Government.

Deposits by Provincial Governments:

92. The Montreal City and District Savings Bank has no deposits of this category.

93. The Quebec Savings Bank has deposits from the Government of the Province of Quebec.

Deposits by the Public:

94. These are of four categories:

(a) Savings Accounts: they bear interest at the rate of 2-3/4 per cent per annum, calculated on the minimum quarterly balance and credited quarterly or semi-annually. Although, in theory they are time deposits, in practice they have always been paid on demand. School Savings Accounts are included in this category.

(b) Personal Chequing Accounts: no interest is paid on these accounts.

(c) Christmas and Holiday Savings Accounts: these accounts favour methodical savings for a definite purpose and are for a fixed term.

(d) Certificates of Deposit: are issued for fixed amounts left on deposit for not less than 90 days. Interest is calculated from the date of issue to the date of reimbursement.

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Poor Funds:

95. They are accumulated surpluses prior to 1871, after reserves for depreciation and possible losses had been created. These surpluses stood at $180,000 for The Montreal City and District Savings Bank and at $83,000 for The Quebec Savings Bank. Revenue is distributed yearly to charitable organizations.

Interest and Deposits:

96. As a rule, the savings banks have granted depositors the same rate of interest paid by commercial banks.

97. In periods of credit expansion deposits rise more rapidly. Changes in savings banks' interest rates have not brought important deposit shifts.

98. The recent United States experiment, in raising rates, has not been too happy and many banks wish the rate war had never started.

Deposit Insurance:

99. Because of their liquidity and the high quality of their assets, the Quebec Savings banks are not convinced of the necessity of established Deposit Insurance.

SECTION - IV - RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

Debt of Financial Institutions held by Quebec Savings Banks:

100. The proportion of such bonds to total bond investments held by the Quebec savings banks is practically nil. The same apply to short-term financial paper.

Competition between the Quebec Savings Banks:

101. Since each savings bank is limited to a certain area, in its operations, there is no competition between the two institutions.

Services offered by the Quebec Savings Banks:

102. The services offered by the Quebec savings banks cover nearly the same range as those offered by the commercial banks.

103. The main differences being that savings banks cannot discount commercial paper, whereas commercial banks are not allowed to make conventional mortgage loans.

104. The savings banks give particular attention to those services which are of special interest to the individual and the family.

Competition with other Financial Institutions:

105. (a) Commercial Banks: Their competition is considered fair.

106. (b) Caisses Populaires: They enjoy wider powers than the savings banks and are not submitted to the restrictions and supervision that apply to real banks. They are also tax exempt, an advantage not

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enjoyed by the real banks.

107. (c) Credit Unions or Caisses d'Economie: The same remarks that apply to the Caisses Populaires also apply to these institutions.

108. (d) Trust Companies: Many trust companies have invaded the banking field and, because their investments are less restricted than those of savings banks, they can afford to pay higher rates of interest on deposits.

109. (e) Finance Companies: The above comments also apply to some finance companies. If savings need to be protected, some restrictions are in order.

Factors influencing the Rate of Growth of the Quebec Savings Banks:

110. (a) Favourable Factors: Branch extension is the most important factor; new services and qualified personnel are contributing factors.

111. (b) Unfavourable Factors: Restrictions imposed on savings banks as compared with some of their competitors, especially tax exempt institutions, are the unfavourable factors.

The Inequity of Tax Exemption accorded to certain Institutions:

112. Many institutions have departed from the principles that are supposed to govern their operations, have invaded the banking field and are less motivated by the desire to promote thrift among their members than by a "business purpose". They accumulate profits and build up untaxed surpluses. This preferential

[illegible] by the real banks.

107. (c) <u>Credit Un[illegible]</u>: The same remarks that apply to the Caisses Populaires also apply to these institutions.

108. (d) <u>Trust Companies</u>: Many trust companies have invaded the banking field and, because their investments are less restricted than those of savings banks, they can afford to pay higher rates of interest on deposits.

109. (e) <u>Finance Companies</u>: The above comments also apply to some finance companies. If savings need to be protected, some restrictions are in order.

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treatment is unjustified since it imposes a heavier burden on other taxpayers and deprives the Government of much needed revenues.

113. In practice co-operatives and mutuals are synonymous. The Quebec savings banks believe that they, and the other tax-paying corporations, have become the true "mutuals" since they now contribute more than half of their earnings to the support of the State.

114. This tax problem has drawn the attention of many, including the President of the United States.

Complementary Relationship with other Financial Institutions:

115. The Directors and Officers of the Quebec savings banks occasionally meet their counterparts from other financial institutions and discuss problems of common interest. Although they have accounts with the commercial banks there is reciprocal arrangement.

116. The Savings Banks deal in bonds through securities dealers and occasionally are invited to participate in new issues as members of selling groups.

Clearing House Membership:

117. The purpose of a Clearing House is to facilitate the dail exchange between the member banks, the settlement of resultant balances, the promotion of the interests of the members and the maintenance of sound banking practices. Fees and costs are assumed by assessments upon the members on the basis of their deliveries for the antecedent year. The Quebec Savings banks are quite satisfied with their present

Clearing arrangements.

Relationship with Bank of Canada and Minister of Finance:

118. Contacts with the Bank of Canada are limited. The savings banks deal directly with the Bank of Canada in new Government of Canada issues, but routine transactions are mostly done through the Bank's agents in Montreal and Quebec. Statutory reports and statements are submitted to the Minister of Finance and the Bank of Canada.

Need for Better Understanding of Bank of Canada Policy:

119. The prestige of the Bank of Canada might be enhanced if the public had a greater understanding of the Bank's policies. The Bank could help to enlighten the public on monetary matters and this might develop more interest and understanding of its functions and policy.

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SECTION - V - REVENUES AND EXPENDITURES - PERSONNEL

Sources of Revenues:

120. Schedules VIII and VIII-A give a breakdown in percentage of sources of revenues, administration costs and interest paid to depositors for the last four years. Changes in revenues reflect the investment policies followed by each savings bank and the trend of business.

Interest and Administration Costs:

121. The decrease in interest paid to depositors reflects the increase in non-interest bearing chequing accounts. Other changes in expenses result from the expansion of business.

Policies and Practices relating to Reserves:

122. The Quebec savings banks follow the rules issued by the Minister of Finance in respect to policies and practices relating to valuation reserves, and reserves against bad and doubtful debts.

Selection, Training and Promotion of Personnel:

L@#. Selection is done mostly, but not exclusively, amongst young high school graduates. Interviews and aptitude tests are used. Training is given by monitors and through special courses.

124. Promotions are given according to efficiency reports and seniority.

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SECTION - VI - VIEWS ON THE CAPITAL MARKET

Workings of the Securities Market:

125. The Quebec savings banks do not underwrite bond issues although they are often invited to participate as members of selling groups. Their operations in this field being limited, they prefer to leave to others the making of suggestions on the subject.

Marketing and Trading of Mortgages:

126. Flexible arrangements have yet to be created for the trading of mortgages. Before a Mortgage Bank is established, many problems would have to be ironed out such as removal of inequalities, uniformity of provincial laws and ways to provide property title guarantee.

Response of Capital Market to Monetary and Financial Policy:

127. The Quebec savings banks endorse Mr. Eric W. Kierans' views concerning the limited effectiveness of interest rates in stemming excessive spending and investment.

128. As regards mortgage loans, the savings banks believe that the direct application of controls to the term of credit is more effective, and is liable to bring quicker results, than the control through ratios of specified assets to liabilities of financial institutions.

Gaps in the Canadian Capital Market:

129. Although the lending powers of the Industrial Development Bank have been enlarged, many

small enterprises find it difficult to get capital for current operations and growth.

130. The Quebec savings banks do not participate in financing of this sort which is outside their field of operation. Since their main purpose is to protect the money entrusted to them by their depositors they do not request an extension of powers in this respect. Even if it became desirable, their participation should be limited.

CONCLUSIONS

131. The Quebec savings banks are proud of their history and for having enjoyed the confidence of many generations of depositors. They are convinced that they have played and still play an important role in the economy by providing a complete financial service to the individual and the family.

132. They trust that the Royal Commission on Banking and Finance will concur in their views and recommendations, so that they be permitted to still better serve the thrifty who deal with them with an absolute feeling of security.

B R I E F

Presented by the Quebec Savings Banks

to

Royal Commission on Banking and Finance

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Presented by the Quebec Savings Banks

to

Royal Commission on Banking and Finance

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BRIEF

Purpose of Brief:

1. The purpose of this brief is to present a complete and detailed picture of the Quebec Savings Banks. Particular attention has been given to the list of topics suggested by the Commission for discussion, in order to include all the information that could be of value to the Commissioners, but care has been taken to avoid unnecessary details that might confuse the issues discussed and lengthen the brief without adding to its usefulness.

Monetary Policy:

2. The two Quebec Savings Banks do not believe that a complete discussion on all the aspects of monetary policy should be included in the Brief they respectfully submit to the Royal Commission on Banking and Finance. Their reason for so thinking is that the Commission, through its research staff and from other institutions more closely influenced by the government monetary policies, will receive material providing complete data on the subject. Therefore the Savings Banks are of the opinion they should limit themselves to general comments which they consider of particular importance.

3. The Savings Banks believe that, generally speaking, monetary policy as presently applied is satisfactory. But they wish to underline the fact that, although monetary policy must be flexible and changes made when circumstances warrant, it cannot be counted upon to settle all economic problems.

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A close coordination of monetary and fiscal policies is also necessary. If well handled, monetary policy can be a wonderful instrument. It can greatly help to insure stability of the buying power of the currency and, so, reduce the dangers of inflation with its dire consequences.

Thrift and its Role in the Economy:

4. It is not necessary to repeat what has been said so often about the importance of thrift, its role in the development of the economy of a nation, how and why it should be encouraged. What is important, is that these things be remembered and more efforts spent to encourage those who save.

Thrift and its Enemies:

5. Since the Savings Banks are dedicated to the promotion of thrift, they are fully aware that inflation is the worst destroyer of thrift. It discourages the savers and robs them of the fruit of their savings. It creates chaos by chasing savings away from fixed income investments into stocks and real estate for which an abnormal demand is thus created, resulting in artificial and unwarranted increases in prices. High taxes, such as exist at present, also discourage thrift and it is surprising to note that whereas, on the one hand, so much lip service is paid to the virtues of thrift and to its necessity for the development of the country, on the other hand, the thrifty are severely penalized.

Capital Market:

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capital market should be to insure the financing, at reasonable conditions, of the state, the provinces, municipalities, public corporations and all other legitimate private enterprises, especially those that provide permanent jobs, and those that produce food and manufactured goods usually needed by Canadian consumers. The allocation of resources should be done only when necessary and only to the extent of insuring adequate financing where and when it is needed.

Financial System:

7. If all financial matters above discussed are well coordinated and objectives attained, this should result in a satisfactory rate of development of all sectors of the country's economy, insure stability of prices, provide, from within the country, most of the financial resources necessary for the establishment and expansion of enterprises, and assure continued prosperity and a high standard of living for most citizens. Only then could the financial system be judged to function adequately.

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Origin of the Quebec Savings Banks:

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10. The Roman Catholic Archbishop of Montreal, His Grace Ignace Bourget, was aware of these problems. On the advice of public spirited businessmen he used to consult on these matters, he took the initiative of calling upon a group of 75 outstanding citizens for their help in view of establishing an institution that would promote thrift and take special care of the savings of the people. They responded to his appeal and The Montreal City and District Savings Bank started its operations on May 26, 1846.

11. The Caisse d'Economie de Notre-Dame de Quebec, which changed its corporate name to The Quebec Savings Bank on August 2, 1944, was established two years after The Montreal City and District Savings Bank and started its operations on May 21, 1848.

12. The two Quebec Savings Banks were, at first and until 1871, mutual and philanthropic institutions and their founders were working for an ideal: the common welfare.

13. The Savings Banks were operating under the general "Savings Banks Act of 1841" enacted by what was then known as the Province of Canada.

Change from Mutuals to Stock Corporations:

14. With the establishment of Confederation in Canada, Banks and banking came under the exclusive purview of the Dominion Government and regulations were elaborated for their control. So, in 1971, the Quebec Savings Banks were granted Royal Charters and

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<u>Capitalization:</u>

15. The capitalization of The Montreal City and District Savings Bank was set at two million dollars with five thousand shares of four hundred dollars each. That of La Caisse d'Economie de Notre-Dame de Quebec was set at one million dollars with two thousand five hundred shares.

16. In 1911, the four hundred dollar shares issued by the Quebec Savings Banks were divided four for one and the par value reduced to one hundred dollars. In 1944, in common with all Canadian banks, the shares of the Quebec Savings Banks were split ten for one and the par value reduced to ten dollars.

<u>Assistant Receiver General for the District of Montreal</u>:

17. By its sound administration and its devotion to the cause of thrift, The Montreal City and District Savings Bank soon gained the confidence of the public and the Government. Proof of this confidence was given in 1871, when it was appointed Assistant Receiver General for the District of Montreal by the Dominion Government. The important duties of this office were to control the issue and redemption of Dominion notes and the exchange of gold, silver, bullion and coins on behalf of the Receiver General of Canada.

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19. Members of the staff of the Assistant Receiver General for the District of Montreal, all of whom had been recruited from the ranks of The Montreal City and District Savings Bank, were invited to join the Montreal Office of the Bank of Canada, in 1935, and all accepted.

20. Mr. C. Desmarais, who served for many years as Agent in Montreal for the Bank of Canada, and the present incumbent, Mr. A. Huberdeau, both started their banking career with The Montreal City and District Savings Bank.

Branches and Personnel:

21. At this moment, The Montreal City and District Savings Bank has 55 branch offices, all on the Island of Montreal except one, and has a staff of 800 full time and 126 part-time employees.

22. All buildings where branches are situated are owned by the Bank and are free from any incumbrances. All branches have been built to satisfy the particular needs of its clientele and are located as near as possible to the residential districts.

23. The Quebec Savings Bank has 19 branches, all in the City of Quebec and suburbs and its staff stands at 139.

Legislation Governing Operations of the Quebec Savings Banks:

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25. From 1871 to 1948, there were no major changes in the laws except to establish more adequately the extent of the powers and the limitations governing the operations of the Quebec Savings Banks.

26. In that year, the Savings Banks, at their request, were authorized to make mortgage loans and personal loans. New houses were in very high demand in theearly fifties and credit for their construction was difficult to obtain. Under the National Housing Act, the commercial banks were invited to help relieve this credit stringency. But, now that the situation is back to normal, we feel they should withdraw from that field of operation.

27. The 1944 revision of the Quebec Savings Banks Act defined the areas, as detailed in paragraph 31, where each of the two Savings Banks could operate.

28. In essence, the present Quebec Savings Banks Act parallels closely the Canadian Bank Act which regulates the Commercial Banks.

General Powers:

29. The Act deals with the matters usually found in legislation of this kind, such as the powers of the shareholders; the qualifications, election, powers and responsibilities of the directors; capital stock, transfer of shares, issue of additional shares; dividends, shareholders' audit, destruction of old records, interest and charges, annual meeting and statements, transmission of deposits, inspection by the Inspector General of Banks and the like.

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secondary interest and need not be commented upon, but there are other subjects more deserving of attention because they give an accurate picture of the conditions under which the Quebec Savings Banks operate.

Statutory Limitation of Branch Locations:

31. The Quebec Savings Banks Act defines clearly what the words "District of Montreal" mean for the purposes of the Act and we find that, in fact, this term describes an area bounded to the West by the Province of Ontario; to the South, by the U.S. border; to the East, by a line skirting a certain number of judicial districts and extending to a distance of about 80 miles from the City of Montreal to the North, to about 100 miles or so. What is defined as the "District of Quebec" covers the rest of the Province of Quebec.

General Statement and Statistical Summary:

32. Schedules II, II-A, III and III-A give the General Statement for the year ending December 31, 1961, and a Statistical Summary for the period 1905 to 1961 inclusively.

Cash and Additional Reserves:

33. The first Reserve, -- also known as the Cash Reserve -- must, at all times, be equal to at least five per cent of the deposit liabilities of the Bank and must be in the form of notes of the Bank of Canada or of deposits with the Bank of Canada or with chartered banks.

34. An additional, or secondary Reserve, must also be maintained at all times and must equal at least 15 per cent of the bank's deposit liabilities.

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This reserve must be in the form of:

(a) notes of the Bank of Canada, deposits with the Bank of Canada or with chartered banks, -- that is the same sort of assets prescribed for the Cash Reserve, -- or,

(b) securities of or guaranteed by the Government of Canada or of a province. (The excess in item one of Schedules II and II-A, over the presdribed 5 per cent Cash Reserve, plus that part of item two which can be properly counted as being part of the secondary reserve, added to items 3 and 4 constitute acceptable components of the Secondary 15 per cent Reserve).

<u>Unrestricted Investments</u>:

35. The Savings Banks, after complying with the rules mentioned above, are authorized to invest freely in a fairly large number of types of securities, the most important being: the securities of or guaranteed by the Government of Canada or the provinces thereof, the United Kingdom and its colonies, the Government of any country of the British Commonwealth, the Government of the United States or of any of the States, Canadian Municipal corporations, school corporations in Canada whose revenues are derived from taxes, securities of ecclesiastical or religious corporations incorporated on Canada, of Fabriques de Paroisse or Syndics issued under the Parish and Fabrique Act of the Province of Quebec, hospital or sanatorium corporations in the Province of Quebec, and Canadian Railway equipment securities meeting

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certain requirements.

Securities in which Investment is Restricted:

36. In this group are included: the bonds, debentures and first preferred shares of any corporation, incorporated in Canada, whose common shares are listed on a recognized stock exchange, provided that it has, in each of the last five previous years, paid in cash, on all its outstanding capital stock, a dividend out of income earned in the year of payment or interest in full upon all of its outstanding securities, and that its unimpaired paid-up capital and earned surplus exceed five hundred thousand dollars.

37. Also in this group are the shares of any Canadian Commercial bank and other securities approved bythe Treasury Board.

38. The total book value of above investments must not exceed 15 per cent of the Bank's deposit liabilities.

39. Since 1957, savings banks are also allowed to invest in the securities and shares of Canadian corporations, not in default of principal or interest, but the aggregate value of all investments of this kind must not exceed 50 per cent of the paid-up Capital and Rest Account of the Bank.

Mortgage Loans:

40. As mentioned previously, it is only in 1948 that the Quebec Savings Banks were given the right to make first mortgage loans. At first, the maximum allowed was 5 per cent of deposit liabilities. In 1952, the limit was raised to 10 per cent. In 1954, when

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the Act was revised, it was changed to 20 per cent. Finally, in 1957, the limit was further upped to 40 per cent of deposit liabilities.

41. Savings Banks may lend on mortgages covered by the National Housing Act and on conventional first mortgages. The following restrictions apply to loans in the last category:

(a) each loan must not exceed the lesser of $100,000 or 60 per cent of the Bank's evaluation of the property;

(b) there must be a building on the property or one in the process of being erected;

(c) at least one half of the floor space of the mortgaged building must be used for residential purposes.

Exceptions:

42. There are certain exceptions to these rules. For example, when a property bought by the Bank for its own use is sold and there is a balance of payment due, or if a property is taken by the Bank because of the non-payment of a loan and this property is later sold and a balance of sale is left outstanding, none of the above restrictions are obligatory.

Secured Loans and Advances:

43. Savings Banks are precluded by law from lending money or making advances on warehouse receipts, goods and merchandises or from carrying on any trade or business. Therefore, they cannot discount commercial paper.

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(a) any of the securities in which the bank itself may invest freely;

(b) the shares of commercial banks or the securities of corporations in the restricted groups, if, when the loan is made, the market value of these securities is not less than one hundred and twenty per cent of the amount of the loan;

(c) life insurance policies, when their cash surrender value is not less than the amount of the loan.

<u>Unsecuried Loans</u>:

45. Savings Banks may lend money and make advances without security to the Government of Canada or to any provinces thereof, to Canadian municipalities, school corporations whose revenues are derived from taxes levied by them or on their behalf, Canadian ecclesiastical or religious corporations, Fabriques de Paroisse or Syndics subject to the Parish and Fabrique Act of the Province of Quebec, corporations operating hospitals or sanatoria in the Province of Quebec, and, under certain conditions, to other Canadian corporations.

46. They may also lend money and make advances without security to individuals in amounts not exceeding $5,000 to each person.

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47. When personal loans were first authorized in 1948, the limit was fixed at $1,000. It

was raised to $2,000 in 1952 and to the present level of $5,000 in 1957.

48. The total amount loaned under that section must not exceed five per cent of the Bank's deposit liabilities.

Bank Premises:

49. Savings Banks may own all the real estate necessary for their present or future operations. They can sell properties and acquire other properties in their stead for the same purpose. But, whenever a property ceases to be required for the use of the Bank, that property must be sold within a period of seven years.

Interests and Charges:

50. Savings Banks, in common with commercial banks, are not allowed to charge a rate of interest or discount higher than 6 per cent, on loans. Rates for collection charges are also specified. However, the Quebec Savings Banks are not restricted to 6 per cent in the rates charges on conventional mortgages and on mortgage loans made under the National Housing Act.

Reports:

51. Reports, in the prescribed form, must be sent to the government, monthly, annually and on demand.

Analysis of Banking Functions:

52. All definitions of what is a bank and what constitutes its functions have something in common. A simple definition would be that a bank is an institution which deals in money and credit, where money may be

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Analysis of Banking Functions:

52. All definitions of what is a bank and what constitutes its functions have something in common. A simple definition would be that a bank is an institution which deals in money and credit, where money may be

deposited for safekeeping. A more elaborate definition of banking would be that it is a branch of business the principal operations of which are to receive, keep and pay, borrow and loan capital in the form of money.

53. Nowadays very few banks in the world, are specialized. Most of them service savings deposits and current accounts, discount commercial paper, make loans with or without collateral security, invest in bonds and subscribe to new issues, and deal in securities.

54. Banks may be classified according to their main objectives such as central banks, commercial banks, savings banks, etc.

55. In the past, perhaps because there were not too many firms or individuals in the banking business, the functions of banking seemed clear enough in the minds of most people. It is only since the creation and growth of new types of financial institutions and their invasion of the banking field that the question has been raised. These institutions, of course, have done all they could to add to the confusion by pretending that, since they did not call themselves "banks", any operation they cared to do could not accordingly be classified as banking operation. Knowing very well how banks and banking are closely regulated and how it would hamper their movements, limit their operations and their profits, it has been in their interest to act as they did. Such superficial reasoning does not change the facts and there is no doubt whatsoever that these institutions are more or less legally carrying on banking operations.

Controls and their Purpose:

56. All well organized countries exercise close control over banking and properly so. They are anxious to avoid a repetition of the failures of the past, to prevent the losses and hardships that failures may cause to large numbers of people, especially the small savers. For many of the latter a loss of this kind is disastrous. There is no doubt that, at first, this was the main reason for such close regulation. Today, because of increased knowledge in the field of economics, other reasons, such as better understanding of the role played by the banks in the economy of the nation, have reinforced that concept. But the first reason, i.e. the protection of the savings of the individuals, is still as valid as ever.

57. If the purpose of the restrictions imposed on the Savings Banks is to protect the savings of the depositing public, then those restrictions should also apply to all institutions who receive deposits from the public.

58. Contrariwise, if restrictions are not necessary or have ceased to be so, then there is discrimination against the Savings Banks.

59. Some interested people may argue that restrictions aim more to protect the word "BANK" than the function itself. Still it is doubtful how anyone can contend seriously that the real purpose of any legislation is to protect the meaning of words rather than the functions represented by these words.

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60. Of course, the Quebec Savings Banks do

not object to supervision and contro.. Even if there were no laws, prudent bankers would, voluntarily and as a matter of course, accumulate reserves, diversify their investments and limit to a safe minimum the risks they take.

61. Their objection is to excessive restrictions and to discrimination which create unfair advantages favouring certain categories of their competitors who have invaded the banking field with impunity and to the detriment of recognized banking institutions.

62. Furthermore, some near banks are tax exempt and that gives them a tremendous advantage over tax paying corporations, but this matter will be discussed at length later in this brief.

The Functions of Savings Banks:

63. The Quebec Savings banks consider that, as such, they have two main objectives:

(a) to insure the highest degree of security for the monies entrusted to them;

(b) to provide complete financial service to the individual and the family.

64. Savings Banks exist in most countries and are generally the object of special attention from the State. It is surprising to note that, in Canada, there are only two Savings Banks apart from the Post Office Savings Bank and the two surviving provincial savings institutions. Some reasons are evident. The comparatively large amount of capital required to start a savings bank is one. Another reason is the facility with which other types of institutions, not

subject to the same strict controls, can be started, take larger risks and accordingly realize a higher margin of profit.

Legislation Governing Savings Banks Operations:

65. The Quebec Savings Banks believe that they play a special role in the community. A study of the laws governing savings banks in other countries shows that, generally speaking, the Quebec Savings Banks Act compares favourably with most of them, although many of the powers granted to our own savings banks could advantageously be enlarged.

66. Should their powers be broadened enough to permit them to fulfil their proper role, the Quebec Savings Banks would be satisfied and would not seek the authorization to make commercial loans. This would enable them to better serve their customers and to keep their identity as savings banks.

Reserve Requirements:

67. The Quebec Savings Banks consider that present reserve requirements are more than sufficient. In support of this view, may we quote a statement made by Mr. James J. Saxon, Comptroller of the Currency of the United States, at a hearing before the Senate Banking and Currency Committee, when he said: "Reserve requirements against savings deposits .... are economically or monetarily unjustified".

68. In "The Investment Outlook for 1962" issued by Bankers Trust of New York City, the following comment appears in the section concerning Mutual Savings Banks: "The 15 per cent of total assets still invested in

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68. In "The Investment Outlook for 1959" issued by Bankers Trust of New York City, the following comment appears in the section concerning Mutual Savings Banks: "The 15 per cent of total assets still invested

in Government securities is a far higher figure than is necessary for liquidity or operating purposes".

69. This opinion, which is shared by many other students of banking and may be confirmed by a study of the fluctuations in savings deposits, merits consideration. Reserve requirements, as presently stipulated in the Quebec Savings Banks Act, should therefore be considered more than sufficient.

Possible Additional Services:

70. Apart from the specific changes recommended by t he Quebec Savings Banks in the following pages, it would be advantageous that the savings banks be allowed to render, to their customers, the additional services described in the following paragraphs.

Savings Bank Life Insurance:

71. Savings Banks, in many of the United States such as the State of NNew York, are allowed to sell this form of insurance which is considerably less expensive than that offered by insurance companies. The amount on the life of any one individual is limited to ten thousand dollars.

Mutual Fund:

72. The Savings Banks could be authorized to establish and sell their own mutual fund over the counter.

Real Estate Investment Trust:

73. Savings Banks could be authorized to establish a real estate investment trust, with sales to or participation by depositors who want to place funds in mortgage loan investments. This trust could

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easily be handled by Savings Banks' personnel already engaged in mortgage work.

Fiduciary Service:

74. Finally, as true service institutions for their communities, the Quebec Savings Banks need the authority to handle trust accounts for their depositors.

PROPOSED AMENDMENTS TO THE QUEBEC SAVINGS BANKS ACT

Section 12 - Qualifications of Directors:

75. The market value of bank shares having risen sharply in recent years, it would be financially impossible, under the present statutory requirements, for many candidates otherwise qualified to be elected to the Board of Directors.

76. Under the present requirements of the Act, to be eligible as a director, a person must hold stock on which not less than five thousand dollars have been paid up. At present market value of 150 for The Montreal City and District Savings Bank stock and 66 for The Quebec Savings Bank, this represents $75,000 and $33,000 respectively.

77. Consequently, the Quebec Savings Banks recommend that the present minimum requirement of 500 shares be reduced to 100 shares.

Section 24 - Authorized Capital Stock:

78. It seems advisable that authority be given to the Quebec Savings Banks to split their shares in order to make them more accessible to small investors and also to insure a wider distribution of the stock.

79. Owing to the present high price of the shares of The Montreal City and District Savings Bank a split into a much larger number of shares, a ten for one split for example, would have to be considered. Such a split, however, would reduce the par value of the shares to such a level as to diminish their prestige. To avoid such a situation the Quebec Savings Banks recommend that no par value shares be substituted to the present $10 par value.

Section 26 - (c) Price Limitation on New Shares:

80. The discrepancy between the maximum price at which new share capital may be issued and the present market value of the shares is such as to render the issue of new capital very onerous and so deprive the Quebec Savings Banks of capital they might need for their expansion.

81. They feel that new shares should be sold at a price more in line with real value and prevailing market conditions at time of issue.

82. At present indicated dividend rate, cost of new money would be over 5 per cent, whereas the yield is about 2 per cent on the present market value of the stock of both institutions.

83. Consequently the Savings Banks recommend that paragraph (c) of Section 26 be repealed and the following substituted therefor:

> "The price at which new shares may be issued shall be fixed by the Directors of the Bank".

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Section 59 - Bonds of Public Utility Companies:

84. Since bonds of large public utilities are considered gilt-edged investments and because of the increasing possibility that the savings banks might invest more heavily in short term commercial and finance company paper, covered by this section, they believe that the limitation to 15 per cent of deposit liabilities may prove too restrictive with time.

85. Consequently, they recommend that Section 58 also include securities of Public Utility companies but with the same limitations on their purchase as presently imposed by Section 59, under (a) (i) (ii) (iii), and that the limitation to 15 per cent of deposit liabilities imposed by Section 59 be set at 20 per cent.

Section 63 (g) - Loans and Advances without Security:

86. There is an increasing demand for loans by Religious Corporations, Syndics or Fabriques de Paroisse. Also because of their continued expansion in new districts, Savings Banks expect to be called upon to make important advances to Municipalities and School Boards pending the collection of taxes or completion of new bond financing.

87. Savings Banks have a large demand for personal loans from their customers who find it more advantageous, because of lower interest rates, to get such loans from the banks they are dealing with.
In our rapidly moving economy, many important changes may take place during the next ten years. Because of possible creeping inflation and other reasons, the

limitation of $5,000 for any one personal loan might be too restrictive as well as the statutory limitation to 5 per cent of deposit liabilities for reasons mentioned above.

88. Consequently, the Quebec Savings Banks recommend that the present limitation to $5,000 for any one personal loan be increased to $10,000, and that the statutory limitation to 5 per cent of deposit liabilities imposed by section 63 be increased to 10 per cent of deposit liabilities.

Section 64 - Mortgage Loans:

Owing to the expected steady increase in population, employment and output, the demand for home financing services in Canada will be substantial in the coming decade.

90. According to Mr. Stewart Bates, President of Central Mortgage and Housing Corporation, the yearly housing needs for the first half of the decade will be for 125,000 to 130,000 new housing units rising to about 150,000 each year for the second half. Naturally if immigration were to be stepped up from the present "dribble", the whole picture would change.

91. The Metropolitan area of Montreal, where The Montreal City and District Savings Bank has limited most of its operations up to now, had a total acreage of 425,000. Of this total, about 100,000 acres are developed and serviced. A large portion of the remaining acreage will no doubt be built in the next decade.

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92. Mortgage funds will also be needed to finance the purchase of existing houses and to enable families to use some of their equity in their homes for spending or investment.

93. In view of these forecasts, The Montreal City and District Savings Bank expects a strong demand for mortgage loans from its growing clientele. The Quebec Savings Bank also expects an increased demand in the Quebec area.

94. For these reasons the Quebec Savings Banks would like to have enlarged powers in the conventional mortgage field and see restrictions imposed by Section 64 of the Act altered or removed. Consequently, they recommend the following:

(a) That the 40 per cent limit to deposit liabilities of loans made under this Section be increased to 60 per cent, excluding loans made under the National Housing Act.

(b) That the statutory limitation for each loan, to the lesser of $100,000 or 60 per cent of the Bank's evaluation of the property, be increased to the lesser of 5 per cent of the paid-up capital and Rest Account of the Bank or 66-2/3 per cent of the Bank's evaluation of existing property, and 75 per cent of the Bank's evaluation of new property.

(c) The removal of the requirement of the Act that 50 per cent of the floor area of the building on which a conventional mortgage loan is considered be used for residential

purposes.

95. The Quebec Savings Banks also recommend that they be authorized to make other than first conventional mortgage loans. These new powers to be covered by a new section with the following statutory limitations: that the amount of each loan does not exceed the less of ½ ofrloper cent of the paid-up capital and Rest Account of the Bank or the difference still owing on existing mortgages and 80 per cent of the Bank's evaluation of the property.

96. That the aggregate of all outstanding amounts loaned in excess of the maximum allowed percentage of the Bank's evaluation of the property for conventional first mortgage loans does not exceed 5 per cent of the Bank's deposit liabilities.

<u>Policy in Regard to Opening of New Branches</u>:

97. A survey of the density of population within a half mile radius of the intended location is first made. The scale of revenue of the inhabitants is less important than the spirit of thrift in assessing the growth potential of the future branch. Consideration is also given to the number of banking establishments in the area, the commercial district, main circulation arteries, centers of attraction and pedestrian circulation.

98. The time required to reach a profitable stage in operations varies considerably and no precise answer can be given: there are too many factors to be considered such as the cost of the building, the rate of growth and many other factors which cannot be

[illegible]

95. [illegible] that they be authorized to make other than first conventional mortgage loans. These new powers to be covered by a new section with the following statutory limitations: that the amount of each loan does not exceed the less of $\frac{1}{2}$ of 1 per cent of the paid-up capital and Rest Account of the Bank or the difference still owing on existing mortgages and 30 per cent of the Bank's evaluation of the property.

96. That the aggregate of all outstanding amounts loaned in excess of the maximum allowed percentage of the Bank's evaluation of the property for conventional first mortgage loans does not exceed 5 per cent of the Bank's deposit liabilities.

[illegible]

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evaluated in advance, like changes in economic conditions which may affect employment, etc.

99. Before establishing a new branch, decision is thus based on our experience in weighing above factors as accurately as possible. No rigid rule can be counted upon.

Statutory Limitation of Branch Location:

100. Should there be no statutory limitation for branch location, the Quebec Savings Banks, individually, might become much larger. Territorial limitation, however, has its advantages but it should also be applied to some other categories of financial organizations seeking savings deposits.

101. A certain density of population is necessary for a savings bank branch to operate profitably within a reasonable period of time. Too intense competition may result in unprofitableness for all institutions concerned.

Internal Organization of the Quebec Savings Banks:

102. According to articles 20 and 21 of the Quebec Savings Banks Act, each Savings Bank is under the management of a Board of Directors who make by-laws with respect to any matter concerning the policies of the Bank and the administration of its affairs. These men are chosen for their vast experience in their field of endeavour. They are responsible to the shareholders. They may appoint as many officers and employees as they consider necessary for carrying on the business of the Bank. The board meetings of The Montreal City and

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District Savings Bank are held weekly and those of The Quebec Savings Bank twice a month. The permanent staff of the bank consists of the executive officers, heads of departments, branch managers and clerical workers.

Executive Officers of The Montreal City and District Savings Bank:

103. The executive officers of this Bank are the General Manager, the Assistant General Manager, the Chief Accountant, the Executive Secretary and Manager of New Business Department, the Chief Inspector and the Comptroller.

104. The General Manager, supervises all aspects of the activities of the Bank having in mind the best interest of all concerned: customers, shareholders and employees. Personally or through his deputy, he coordinates and supervises the work of the various departments. Through daily conferences with the President, on the policies of the Bank and on the most important business currently handled, he acts as liaison between the Board of Directors and the staff. He is responsible for the implementation of the policies of the Bank.

105. The Assistant General Manager, supervises the investments of the Bank and oversees all its monetary transactions. He has under his jurisdiction the Mortgage Loans Department, Personal Loans Department, and Loans against Collateral Department. Furthermore, he assists the General Manager in the latter's duties as defined in the preceding paragraph.

106. The Chief Accountant, supervises the

General Accounting, Loans against Collateral and Safe-keeping Departments. He is responsible for all operating reports and statements submitted to the Management or to the Board of Directors, and for the preparation and expediting of statutory reports to the governments.

107. The Executive Secretary and Manager of the New Business Department

(a) As Executive Secretary he supervises the agenda, drafts the minutes and acts as secretary at all meetings of the Board of Directors. He coordinates the activities relative to the annual meeting of the Bank and is responsible for all publications in the newspapers pertaining to dividends, annual meeting notices and other publications required by law. He supervises the legal and other aspects of real estate transactions made by the Bank.

(b) As Manager of the New Business Department he plans and organizes all new business promotions through employee participation to various programs or through personal contacts with individuals or groups in the social, educational, artistic and sport field. He is also in close relation with the Advertising Department.

108. The Chief Inspector conducts internal audits and inspections at Head Office and branches. The present incumbent of that position, acting as delegate of the General Manager, coordinates the operations of various

departments: Personnel, Buildings, Routine and Organization, Security and other operating departments of lesser importance. He is also in charge of the Legal Department which looks after settlement of estates, powers of attorney, claims, frauds, adjustments, etc.

109. The Comptroller supervises all transactions in the Accounting, Mortgage Loans, Personal Loans and Foreign Exchange Departments. He controls all operating expenditures and revenues.

Internal Control Inspection and Safeguards:

110. In order to guard against error and dishonest or questionable practices, a yearly audit is made of each branch by the Inspector of his staff. Moreover, they verify tellers' balances at least every three months, independently of branch managers' special inspections, and at least once a year balance all ledgers in the Bank. All loans at Head Office and Branches are examined by the Inspector's staff. The securities against loans are counted and verified and the rate at which these are held is also checked. Securities held in safekeeping at Head Office and branches are periodically counted and verified with the individual accounts.

111. Furthermore, a continuous checking is made in all sectors of the Bank's operations. Experience concerning fraud and dishonesty compares very favourable with other institutions. To increase the efficiency of the personnel and safeguard against possible losses due to incompetence, all employees, from ledgerkeepers to accountants, have to attend

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training courses detailed later in this brief.

Budget and Reports to the Board of Directors:

112. An annual budget is prepared by a special committee and submitted to the Board of Directors for discussion and adoption. Monthly reports of expenses, quarterly comparative reports on earnings and expenses, in regard to the adopted annual budget, are also submitted to the Board of Directors. A projection of the probable earnings and expenses for the coming five years is prepared by the Budget Committee and submitted to the Board for discussion and determination of policies.

Executive Officers of The Quebec Savings Bank:

113. The executive officers of this bank are the General Manager, the Chief Inspector and the Secretary and Chief Accountant.

114. The General Manager, supervises all aspects of the activities of the Bank having in mind the best interest of all concerned. He also supervises the investments of the Bank and oversees all its monetary transactions. He has under his jurisdiction the mortgage loans department. He acts as liaison between the Board of Directors and the staff. He is responsible for the implementation of the policies of the Bank.

115. The Chief Inspector, supervises the personal loans department and loans against collateral department. All applications for loans over $1,000 are submitted to the General Manager and to the Board of Directors for final approval. He assists the

training courses detailed later in this brief.

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General Manager in the latter's duties. He conducts internal audits and inspections at the Head Office and branches. He coordinates the operations of the various departments, personnel, buildings, routine and organization, security and other operating departments of lesser importance.

116. <u>The Chief Accountant</u>, supervises the general accounting, loans against collateral and safekeeping departments. He is responsible for all operating reports and statements submitted to the Management or to the Board of Directors, and for the preparation and expediting of statutory reports to the governments. He is in charge of the Stock Transfer Book for the Capital Stock of the Bank and acts as Secretary at all meetings of the Board of Directors.

<u>Shareholders' Audit:</u>

117. Two auditors, having exercised their profession as chartered accountants for at least six years, are appointed by the Shareholders at the annual meeting. They make an examination of the Head Office cash and the securities and loans of the Bank and the securities held for customers and as guarantee against loans at Head Office. They review a certain number of internal inspection reports to satisfy themselves that the procedure is adequate and the inspection methods are satisfactory. They have access to all the books of the Bank, the records, the branch returns, and are entitled to receive from the officers of the Bank all the information they may require. They submit to the Directors, at end of fiscal year, a cer-

General Manager in the latter's duties. He conducts internal audits and inspections at the Head Office and branches. He coordinates the operations of the various departments, personnel, buildings, routine and organization, security and other operating departments of lesser importance.

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tificate to the effect that the Statement of Assets and Liabilities presents fairly the financial position of the Bank.

Government Inspection:

118. The Inspector General of Banks, appointed by the Governor in Council, makes a yearly examination of the affairs of the Bank in order to ascertain that the provisions of the Quebec Savings Banks Act are observed and that the Bank is in a sound financial condition. He also reviews the periodic reports submitted by the Bank to the Minister of Finance and the Bank of Canada.

SECTION - II - ASSET MANAGEMENT

Policies and Practices Relative to Cash and Liquid Reserves:

119. The Quebec Savings Banks feel that it is good banking practice to keep a cash reserve of approximately 10 per cent of their deposit liabilities in order to meet possible withdrawals by customers.

120. The excess of the 5 per cent minimum required by law is kept either in deposit in banks, Treasury Bills or Day-to-Day money. Holdings of Government of Canada and provincial bonds exceed by far the 15 per cent of deposit liabilities required by subsection 2 of section 55 of the Act.

121. The Cash maintained in Bank of Canada is essentially to meet Clearing commitments. The Quebec Savings Banks also have in safekeeping with the Bank of Canada large amounts of Government of Canada bonds pledged as collateral for possible advances, to replenish a temporarily reduced cash reserve and to guarantee requisitions for currency. They have very seldom availed themselves of these loan facilities.

122. For many years, the Quebec Savings Banks have kept on deposit with the chartered banks a good portion of their cash reserve and their business relations with them are cordial.

123. The factors which favourable influence the availability of reserves are:

(a) an increase in deposits by the public;

(b) repayments on Day-to-Day, Mortgage, Personal and other loans;

SECTION - II - ASSETS

Policies and Practices Relative to Cash ..

Liquid Reserves:

119. The Quebec Savings Banks feel that it is good banking practice to keep a cash reserve of approximately 10 per cent of their deposit liabilities in order to meet possible withdrawals by customers.

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123. The factors which favourable influence the availability of reserves are:

(a) an increase in deposits by the public;

(b) repayments of Day-to-Day, Mortgage, Personal and other loans;

(c) proceeds from matured bonds from the Bank's portfolio;

(d) the cashing of coupons from bond investments.

124. Conversely, important withdrawals by depositors adversely affect these reserves.

125. Since their inception, the Quebec Savings Banks have always endeavoured to develop thrift among the working classes. They have few large savings accounts and, generally speaking, deposits do not fluctuate in any disturbing manner.

126. Any excess of their normal reserve is invested. Any deficiency is replenished by calling back Day-to-Day money or selling short term securities.

127. Changes that might be contemplated in law or practice in regard to cash and liquidity requirements, with the purpose of tightening control over money and credit, would serve no useful purpose if applied to the Quebec Savings Banks. It would not, in their opinion, appreciably increase the effectiveness of monetary policy as they are not an influencing factor in the money market.

128. Since they are not allowed to discount commercial paper, they feel that any change of that nature should be restricted to commercial banks and other financial institutions whose operations strongly influence the volume of money and credit.

129. Finally, the Quebec Savings Banks have always maintained cash and liquid reserves much in excess of statutory requirements.

[illegible]

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129. Finally, the Quebec Savings Banks have always maintained cash and liquid reserves much in excess of statutory requirements.

Investment Policies:

130. When deciding on investment policies, the Quebec Savings Banks have always in mind their responsibility as custodians of the public's savings. Their investment policy is determined accordingly, with security as the first objective. Decision on policies is determined by the Board of Directors after consultation with Management.

131. After putting aside the cash believed necessary to meet possible withdrawals, surplus funds are invested in bonds, preferred stocks, mortgage and personal loans, and loans against collateral security.

132. Until 1948, investments were mostly in bonds. That year, in response to a growing demand from their clientele, the Savings Banks asked for and were granted the authorization to make loans on first mortgages and personal loans. The results have been most satisfactory to both the public and the institutions. The demand has continued to increase, but the banks had built such large bond portfolios that, at the present time, the percentage of bonds held to deposit liabilities still exceeds by far the minimum legal requirements.

Classes of Assets and their Proportion to Total Assets:

133. Schedules IV and IV-A show the classes of assets and their proportion to total assets as at December 31, 1961.

Scope of Lending Powers:

134. Although lending powers in mortgages

[illegible]

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Scope of Lending Powers:

134. Although lending powers in mortgages

and personal loans have been enlarged since first granted in 1948, developments in recent years have rendered them too restrictive.

135. The Quebec Savings Banks wish to keep their identity as Savings Banks and are not interested in making loans to industry and commerce. They are quite happy with their present role of providing full banking services to the individual and the family.

<u>Mortgage Loans</u>:

136. Mortgages are nearly as liquid as bonds. Monthly, quarterly and semi-annual instalments, as well as the relatively short term of the loans, produce a large and constant inflow of money.

137. Capital repayments on loans made under the National Housing Act are very low in the early years of the loan.

138. The banks believe that a secondary market for mortgages will gradually develop in Canada. With a governmental program to stabilize the economy, there is little likelihood that mortgage lenders, even in a major recession, would ever suffer the sharp shrinkages in assets they faced in the early thirties.

139. The Quebec Savings Banks feel justified in asking for amendments to Section 64 of the Act. Their record shows that throughout their existence they have always invested wisely the m nies entrusted in their care and they will continue to do so.

140. But in a world of fierce and sometimes not too fair competition, they would like to obtain at least the same lending powers, in the mortgage field,

as their competitors who are going after the public's savings for mortgage investments.

Personal Loans:

141. Personal loans are requested in ever larger numbers and amounts. The Quebec Savings Banks find Section 63 of the Act covering them too restrictive.

142. There are a number of indications that consumer borrowing does fit into the concept of a savings institution; for with the rising sense of economic security among the nation's consumers, there has been a growing tendency to borrow for large consumer epxenditures rather than to save for them. Thus the savings process has become the repayment of the loan after the purchase has been made instead of the building up of the account prior to the purchase of the "big ticket" item.

143. The substitution of personal loans for prior accumulation of savings as a means of financing big consumer items has not been the only way in which consumer borrowing has replaced voluntary savings in the public's attitudes. In addition, while savings accounts formerly served as the source of funds emergencies such as sickness, now the growth of insurance against emergencies and ready availability of consumer credit have enabled a vast number of families to give up this motive for saving and to rely on personal loans in time of need.

Investments in Securities:

144. The Quebec Savings Banks' investments

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Investments in Securities

144. The Quebec Savings Banks' investments

in securities have been mostly in Government, Provincial and Municipal bonds. They also hold in their portfolios, in lesser amounts, corporate bonds and bonds of Religious Corporations, Syndics and Fabriques de Paroisse.

145. Bond maturities appear in Schedules V and V-A.

146. Most bonds mature within ten years and maturities are so distributed that the banks have funds available each month to face possible large withdrawals of deposits or to meet new demands for loans. Any surplus of funds is reinvested in bonds.

147. When market conditions warrant, trading may be made before maturity.

POLICIES AND PRACTICES WITH RESPECT TO MORTGAGES AND LOANS

Conventional Mortgages:

148. Conventional mortgages are usually made for terms of five to twenty years repayable either by semi-annual instalments of 2½ per cent on capital, plus interest or by monthly instalments comprising capital and interest, and amortized over a period not exceeding twenty years.

149. For five year loans, if instalments, interest, taxes and insurance premiums are not in arrears and the property is in good condition, the loan is renewed for another five years at the then prevailing rate of interest. The same procedure is repeated, at the end of each succeeding five year period, until the loan is fully paid.

150. Applications are screened by the Mortgage Department and submitted to a committee.

[illegible]

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150. Applications are screened by the Mortgage Department and submitted to a committee.

151. Applications accepted by the Committee are submitted, for approval, to the Board of Directors at their regular meetings.

Policies and Practices with respect to Mortgage Loans made under the "National Housing Act"

152. As the title indicates, this category of mortgage loans is controlled by Government regulations.

153. They are amortized over periods from 20 to 35 years and are payable by monthly instalments comprising capital, interest and taxes.

154. They are insured and usually made to relatively young people who bring a small equity in the purchase of their home.

Policies and Practices in regards to Loans Against Collateral Security

155. These loans are made to persons, stock brokers, and investment dealers. Although they are callable on demand, in practice this is very seldom done. No fixed repayments are requested and the margin required is the same as with other banks.

156. Day-to-Day loans are also made to investment dealers, on a four hour call. These loans are secured by Treasury Bills and Government of Canada Bonds maturing within three years.

157. The Chief Accountant and his assistant are authorized to approve loans up to $25,000. Loans exceeding that amount must be approved by the General Manager or his assistant.

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Policies and Practices concerning Personal Loans

159. These loans are made for period of up to three years, covered by Life Insurance, and are repayable by equal monthly instalments. In some cases one or two endorsers are required. The Manager of the Personal Loans Department is authorized to approve loans up to $2,000. Loans exceeding that amount must be approved by the Comptroller.

160. Personal Loans are also confirmed by the Board of Directors.

161. Applications for these loans come mostly from branches where the applicant usually has an account and is well known by the manager who recommends the loan. They are all processed at Head Office and kept there under the supervision of the Manager of the Personal Loans Department. Losses are very small. At the end of 1961, personal loans stood at $3,500,000 for The Montreal City and District Savings Bank and at $1,000,000 for The Quebec Savings Bank.

Policies and Practices concerning Loans to Religious Corporations, Syndics and Fabriques de Paroisse

162. Operating in a cosmopolitan district, The Montreal City and District Savings Bank is often called upon to make loans to Religious Corporations of all creeds and nationalities.

163. As additional protection for such loans it takes a first mortgage on property and often requires

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163. As additional protection for such loans it takes a first mortgage on property and often requires

pledges from members of the congregation. These loans are usually made for a maximum term of ten years.

164. Loans to Syndics are covered by a levy, known as repartition, on the properties owned by declared Roman Catholics and situated within the limits of the parish which makes the levy.

165. Before applying for loans, Fabriques de Paroisse have to comply with strict regulations from their Archbishop and all necessary precautions are taken to make sure that the parish will be able to meet its obligations.

Credit Shortage

166. When credit is in short supply, reasons given to secure loans are scrutinized more closely. The best risks are given priority to whatever credit may be available. Loan requests for speculation purposes are rejected. Under such circumstances, the Savings Banks make it a rule to satisfy as many borrowers as they can in preference to making only a few large loans.

Lending Rates

167. The Quebec Savings Banks' lending rates have generally been kept in line with those of commercial banks. The Savings Banks, being comparatively small institutions, understand the futility of trying to initiate changes in lending rates which not only could serve no useful purpose but might create some problems. These reasons do not apply in the conventional mortgage field where the commercial banks do not operate and where no statutory

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[illegible]

165. Before applying for loans, Fabriques de Paroisse have to comply with strict regulations from their Archbishop and all necessary precautions [illegible] to meet its obligations.

[illegible]

166. When credit is in short supply, reasons [illegible] The best risks are given priority to whatever credit may be available. Loan requests for speculation purposes are rejected. Under such circumstances, the Savings Banks make it a rule to satisfy as many borrowers as they can in preference to making only a few large loans.

Lending Rates

167. The Quebec Savings Banks' lending rates have generally been kept in line with those of commercial banks. The Savings Banks, being comparatively small institutions, understand the futility of trying to initiate changes in lending rates which not only could serve no useful purpose but might create some problems. These reasons do not apply in the conventional mortgage field where the commercial banks do not operate and where no statutory

rate limit exists. Also, changes in general credit conditions have not been accompanied so far by any noticeable difference in the demand for funds. With the 6 per cent ceiling on lending rates, the spread between high and low in rates has been quite narrow. The rate has thus never been an important factor.

168. With the constantly rising costs in banking operations, the 6 per cent ceiling on lending rates appears too low and should, in our opinion, be revised upward.

SECTION - III - LIABILITIES

Classes of Liabilities

169. Liabilities of the Quebec Savings Banks, except Capital, Rest Account and Undivided Profits Account, are as follows:

(a) Deposits by the Government of Canada.

(b) Deposits by Canadian provincial governments.

(c) Deposits by the public.

(d) Poor Fund or Charity Trust Fund.

Deposits by the Government of Canada:

170. Deposits by the Government of Canada represent purchases of Canada Savings Bonds by the banks' clients and the public, and allotments to the Quebec Savings Banks of new Government of Canada issues. By agreement with the Minister of Finance, those amounts are deposited with the Quebec Savings Banks and gradually withdrawn by the Government.

Deposits by Provincial Governments:

171. The Montreal City and District Savings Bank has no deposit of this category. The Quebec Savings Bank receives deposits from the Government of the Province of Quebec.

Deposits by the Public:

172. Deposits by the public are divided in four categories:

(a) Savings Accounts

(b) Personal Chequing Accounts

(c) Christmas and Holiday Savings Accounts

(d) Certificates of Deposit.

Savings Accounts:

173. Savings Accounts bear interest at 2-3/4 per cent per annum. Interest is calculated on the minimum quarterly balance on deposit and credited at the end of each quarter by The Montreal City and District Savings Bank and semi-annually by The Quebec Savings Bank.

174. The Quebec Savings Banks reserve the right to require a notice from their clients before withdrawals may be authorized. In practice, however, deposits are paid on demand.

175. Included in this category are School Savings Accounts. They bear the same rate of interest and have the same withdrawal privileges.

Personal Chequing Accounts:

176. Personal chequing accounts are used for small current transactions such as the payment of bills and the balance maintained is usually small. No interest is paid on these accounts.

Christmas and Holiday Savings Accounts:

177. Christmas and Holiday Savings Accounts favour methodical savings for a definite purpose. The depositor binds himself to deposit regularly a certain amount during a fixed term, at the end of which the Bank remits the accumulated funds plus interest calculated at 2-3/4 per cent per annum. As a rule no withdrawals are allowed until the term has expired.

Certificates of Deposits:

178. Certificates of Deposits are issued

for fixed amounts which depositors agree to leave on deposit for a period of not less than 90 days. The advantage of this kind of deposit is that interest is calculated from the date of issue of the certificate to the date of reimbursement.

Poor Funds:

179. As mentioned earlier in this brief, the two Quebec Savings Banks were, at first and until 1871, mutual and philanthropic institutions. Reserves for depreciation and possible losses had been created from accumulated profits. But at the time of incorporation, remaining surpluses stood at $180,000. for The Montreal City and District Savings Bank, and at $83,000 for The Quebec Savings Bank. As these monies belonged to nobody in particular, they were placed in a special fund called "The Poor Fund".

180. The revenue from these funds is distributed at the end of each year to various charitable organizations.

Rate of Withdrawal of Deposits:

181. Schedules VI and VI-A give the rate of withdrawals of deposits.

Interest on Deposits:

182. As a rule, it has been the Savings Banks' policy to grant depositors the same rate of interest as that paid by the commercial banks. The Quebec Savings Banks are not interested in the short term money that moves from institution to institution, or to the open market and back, in search of an extra say ¼ per cent, but rather in the long-term "investment

type" funds which can help build deposits without sharp fund shifts.

183. In periods of credit expansion, when a stimulus is given to the economy, deposits rise more rapidly. But changes in savings banks' rates having been moderate, have not, in the past, brought important deposit shifts. Furthermore, many people keep money in the bank for convenience and for the services the bank can give. A moderate rate of return differential is not important to the customer if he gets the accommodation he needs.

184. The United States experience is a case in point. In December 1961, the U.S. Federal Reserve Board allowed commercial banks to raise their rates from a flat 3 per cent on all savings accounts to 4 per cent on deposits held a year or more, and to 3½ per cent on savings left on deposit for shorter terms.

185. The commercial banks moved quickly to raise their rates and the thrift institutions retaliated.

186. All the above institutions are now finding that the rate increase is costing them a lot of money without bringing any great influx of new savings. Many admit they wish the rate war had never started. Some banks have even begun to lower their rates.

Deposit Insurance:

187. The Quebec Savings Banks do not believe in the necessity of establishing Deposit Insurance, the reason being the great liquidity they maintain

and the high quality of their assets.

188. The establishment of this kind of insurance might raise some doubt on the s ecurity of the deposits entrusted in their care and lower the public's confidence.

SECTION - IV - RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

Debt of Financial Institutions held by the Quebec Savings Banks:

189. The proportion of such bonds to total bond investments held by the Quebec Savings Banks is practically nil. The Savings Banks do very little business in short term financial paper. They prefer to finance directly the needs of the public than to lend their money to competitors who would use it to fill the same credit functions.

Competition between the Quebec Savings Banks:

190. There is no competition between the two Savings Banks, each limiting its operations to the territory assigned to it by Section 8 of the Act.

Services offered by the Quebec Savings Banks:

191. The Quebec Savings Banks offer a large number of services to their customers and their aim is to provide a still more complete financial service for the individual and the family.

The list that follows is simply an enumeration of existing services, many of which have been more fully detailed and commented upon elsewhere in this brief and others are self-explanatory.

(a) Accounts:

Savings Accounts - School Savings Accounts - Current Accounts - Personal Chequing Accounts - Joint Accounts - Trust Accounts - Christmas Club Accounts - Holiday Savings Accounts.

(b) Certificates of Deposits

SECTION - IV - RELATIONS [illegible]

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(a) Accounts:

Savings Accounts - School Savings Accounts - Current Accounts - Personal Chequing Accounts - Joint Accounts - Trust Accounts - Christmas Club Accounts - Holiday Savings Accounts.

(b) Certificates of Deposits

(c) Loans: Mortgage Loans - Personal Loans, Loans against Collateral - Call Loans - Day-to-Day Loans - Loans to Religious Corporations, Syndics and Fabriques de Paroisse and Sanatoria.

(d) Sundry Services:

Deposits by Mail - Night Depositors - Drive- Service and Walk-up windows - Safety Boxes - Investment Service - Safekeeping - Travelers' Cheques - Foreign Exchange - Letters of Credit - Foreign Remittances - Drafts on all countries.

Collection of Sundry Bills:

Municipal Taxes, Parking Tickets, Public Utilities, Insurance and Oil Companies, Central Mortgage and Housing Corporation.

(e) Home Savings Banks: The Montreal City and District Savings Bank started issuing these home banks a great many years ago. They are sold across the counter at one dollar each though the actual cost to the bank is about $2.75. Although they have not been advertised for some time, the demand has been maintained throughout the years and people like to give them to their children to encourage and develop thrifty habits. Even grown-ups use them to build up certain reserves for purposes

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of their own. The home banks must be presented at the bank's counter for opening. The $1. deposit required at time of sale is reimbursed to the buyer when he brings back the bank because he does not need it any more. The number of banks in circulation increases by about 4,500 each year and the total has now reached the remarkable figure of 230,600 banks. The Quebec Savings Bank also issues savings banks under similar conditions and has over 15,600 banks in circulation.

Competition between the Quebec Savings Banks and other Financial Institutions:

192. (a) Commercial Banks - Although these institutions have branches everywhere, their competition remains fair. Commercial banks started to show increasing interest in savings accounts about the year 1934, when the Bank of Canada was established.

193. Excessive branching by commercial banks raises serious doubt as to the profitability and justification of such intense competition, but this affects the Quebec Savings Banks only to a limited extent.

194. If we compare commercial banks with savings banks, we find that the difference is more in the extent of the powers and privileges given to the one or the other than in their methods as they apply to operations common to both.

195. The main difference being that the

Quebec Savings Banks cannot discount commercial paper whereas the commercial banks are not allowed to make conventional mortgage loans although such mortgages may be taken as additional security for loans.

196. Savings accounts, personal chequing accounts, and nearly all other banking services rendered by commercial banks, are also available at the savings banks. The Quebec Savings Banks pride themselves in offering superior personal service to the individual and the family to whom they are able to give their undivided time and attention.

197. (b) Caisses Populaires - These institutions started their operations in the Province of Quebec at the turn of the century.

198. They operate under the Quebec Co-operative Syndicates Act which gives them much wider powers than those enjoyed by the Quebec Savings Banks under the Quebec Savings Banks Act.

199. As expressed by the will of its founder, the Caisse Populaire was to be a parochial institution. But its field of operations soon exceeded the parochial boundaries.

200. Caisses Populaires are no longer single institutions; through their union connection, they have become one single bank with multiple branches, without being subjected to the supervision and restrictions of savings banks.

201. The avowed objectives of the Caisses Populaires are to encourage thrift and saving among their members and to grant them loans for personal needs

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and other uses.

202. But the Caisses have gradually invaded the banking field and today, without having to pay income tax, they compete in nearly all the services rendered by savings and commercial banks.

203. These privileged conditions enable them to pay a higher rate of interest on deposits. It is also reflected in their rate of growth; for example, in 1955, "L'Union Regionale de Montreal des Caisses Populaires Desjardins" comprised 38 caisses with total assets of $2,000,000. In 1961, the number of caisses had increased to 298 with total assets of $285,000,000.

204. (c) Credit Unions or Caisses d'Economie - These institutions pursue the same objectives as the Caisses Populaires and, generally speaking, observations made above concerning the Caisses Populaires equally apply to "Credit Unions" or "Caisses d'Economie".

205. (d) Trust Companies - These institutions may be governed by either a federal or provincial charter. Their main functions are to act as administrators and executors of estates. But since a few years certain of these companies, who used to operate locally, have started to open branches across the country. They invite the public to open savings accounts, with checking privileges, and thus compete with Commercial and Savings Banks.

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207. (e) Finance Companies - Many of the remarks made in regard to trust companies also apply to many finance companies: they compete with banks in loans and deposits, are less restricted in their investments and lending powers. If savings need to be protected, many of the restrictions imposed on savings banks should apply to them.

208. They also secure funds for their operations by issuing their own short term paper and borrow from commercial banks or sometimes through bond issues.

Factors Influencing the Rate of Growth of the Quebec Savings Banks:

209. (a) Favourable Factors - The opening of a larger number of branches in recent years, especially by The Montreal City and District Savings Bank, has been the most important factor of growth.

210. The extension of services given to the public has also been a contributing factor.

211. Particular attention is given to the training of the personnel and we find that this gives profitable results.

212. (b) Unfavourable Factors - Restricted powers imposed on the Quebec Savings Banks as compared with the wider powers enjoyed by some of their competitors hamper the growth of the savings banks.

213. Competition by tax exempt institutions operating in the banking field also slows the rate of growth.

The Inequity of Tax Exemption Accorded to

Certain Institutions:

214. A discussion cannot be made of the factors influencing the growth of the Quebec Savings Banks without mentioning the difference in the treatment accorded to them and other taxpayers, and the treatment accorded to tax exempt institutions.

215. Although institutions operating as true cooperatives have a raison d'etre and may render valuable services to their members, things are different when such institutions depart from the principles that should govern their operations and enter fields outside their domain such as banking.

216. True cooperatives are supposed:

(a) to give rebates to their members in proportion to the profits realized on transactions made with each of them;

(b) to deal only with their members. Otherwise the profits they make should be considered on the same footing as those of any other business concern and be taxable accordingly;

(c) profits on investments, except required reserves proportionate to their liabilities and risks, should be periodically distributed to members;

(d) no other surplus is justified, which results in asset accumulations that are not distributed to members.

217. A large number of cooperative societies violate one or more of such principles. They no longer are content to render service to their members but solicit business from all and sundry and even make commercial

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217. A large number of cooperative societies violate one or more of such principles. They no longer are content to render service to their members but solicit business from all and sundry and even make commercial

loans. Some do not give rebates or, if they do, such rebates are more symbolic than real, and they build up surpluses that have no relationship whatsoever to the amount at risk and the degree of risk involved.

218. Although the original founders (and perhaps many of the present Directors) may have been motivated by a desire to encourage thrift rather than to make a profit, today the managers and Directors of a great many among these institutions are motivated more by a "business purpose". In fact a large number of instances can be cited where business is solicited from regular business establishments such as furniture stores, automobile dealers and others. Arrangements are also made with the retailers for the instalment buyers to be financed by the cooperative society.

219. The main purpose being to increase the revenues and profits of the society and, perhaps, the importance of the managers and the prestige of the Directors.

220. The fact is that a large portion of these profits resulting from business is not distributed to members whose expenses would otherwise be decreased, or to savers whose revenues would be taxable.

221. This creates an unfair situation and deprives the Government from much needed revenues. When the rates of taxation were low, this was of less importance. But at present rates, preferential treatment of this sort is unjust to other taxpayers who are called upon to shoulder a heavier load than would otherwise be the case.

222. These so-called cooperative societies try to justify this situation by pretending that they are "mutuals".

223. The Quebec Savings Banks, in common with other tax-paying corporations, believe that they themselves are the true "mutuals" since they contribute more than half of their earnings to the support of the State and to the welfare of all the citizens of Canada. This, in their opinion, constitutes mutuality of the highest order, of far greater breadth and wider conception than mutuality between a select few.

224. It violates also the principles of democracy or even of socialism which demand that each and every citizen bears his share of the common load and does not benefit at the expense of his co-citizens.

225. Cooperatives should be held strictly accountable for all undistributed profits, net of reasonable reserves related to actual risks and calculated at rates fixed by the Government, and excess profits should be taxed at the same rates which apply to other business.

226. Any other alternative will result in accelerating the growth and the increase in number of groups formed for the express purpose of evading taxes. The ultimate will be reached when such groups are so numerous that only a minority of the citizens will be left to bear the whole taxation load.

227. The Quebec Savings Banks are not the only ones who are conscious of this tax problem. None other than Mr. John F. Kennedy, President of the

United States, in his programme of tax reforms, includes the elimination of "unwarranted tax preferences" to cooperatives, mutual fire and casualty insurance companies, mutual savings banks, and savings and loan associations.

Comparative Interest Rates Paid and Charged:

228. A comparison with other financial institutions of interest rates paid and charged appears in Schedule VII.

Complementary Relationship with other Financial Institutions:

229. Directors and executive officers of the Quebec Savings Banks have often occasion to meet their counterparts from other financial institutions to discuss mutual problems and exchange views on banking procedures and practices, and on matters of common interest.

230. The Savings Banks deal regularly in bonds, through securities dealers, for their own portfolios and for trading account. They also do some day-to-day business with them and receive lists of quotations, comments on market conditions and, from the dealers' research departments, valuable studies on various corporations. Occasionally, the banks are invited to participate in new issues as members of selling groups.

Clearing House Membership:

231. The Banks doing business in any city or town, or such of them as may desire to do so, may form themselves into a Clearing House.

232. Banks, thereafter establishing offices in such city or town, may be admitted to the Clearing House as members thereof by receiving the affirmative vote of three-fourths of the members, certifying assent to the constitution, by-laws, rules and regulations, and subscribing to all agreements in the same manner as the original members.

233. The Quebec Savings Banks upon agreeing to comply with the by-laws and other requirements of the Canadian Bankers Association, were admitted as members either of the Montreal or the Quebec Clearing Houses with all privileges.

234. The objects of the Clearing House are to facilitate, at one place and at one time, the daily exchange between the several members, the settlement of the balances resulting from such exchange, the promotion of the interests of the members and the maintenance of sound banking practices.

235. The fees and cost are assumed by an assessment upon the members. Twenty-five per cent (25%) should be met by equal assessments upon the members and the balance of seventy-five per cent (75%) should be assumed on the basis of total deliveries of the respective members to Clearing House for the antecedent calendar year. The Quebec Savings Banks are quite satisfied with the present Clearing arrangements and have no suggestions to offer for any changes.

Relationship with Bank of Canada and Minister of Finance:

236. By the nature of their operations, the

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<u>Relationship with Bank of Canada and Minister of Finance:</u>

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commercial banks have more frequent contacts with the Bank of Canada and with the Minister of Finance than the Quebec Savings Banks. It is mostly through the commercial banks that the Bank of Canada controls the volume of credit in the country. Savings Banks not being an influencing factor in this field, the need for consultation is very limited. The Savings Banks deal directly with the Bank of Canada in new Government of Canada issues, but their routine transactions are mostly done through its agents in Montreal and Quebec. Statutory reports and statements are submitted to the Minister of Finance and to the Bank of Canada.

Need for better Understanding of Bank of Canada Policy:

237. The prestige of the Bank of Canada might be enhanced if the public had a greater understanding of its policies. The Bank should provide more material to enlighten the public on monetary matters. A rather more knowledgeable interest in the Bank's operations by the press would also encourage wider discussion and understanding of the Bank's functions and policy.

SECTION - V - REVENUES AND EXPENDITURES - PERSONNEL

Sources of Revenues:

238. Schedules VIII and VIII-A give a breakdown in percentage of sources of revenues, administrative costs, and interest paid to depositors for the last four years.

(a) Investments in Securities and Loans

Changes in revenues from securities and loans reflect the investment policies followed by each bank.

(b) Other Operating Revenues

These are derived from the following services: Service Charges - Fees for collecting Public Utility Companies' bills and other bills - Safekeeping - Foreign exchange and other banking services.

Interest and Administration Costs:

239. Interest paid to Depositors - The decrease reflects the increasing number of checking accounts on which no interest is paid.

240. Salaries and Fringe Benefits - The proportion of salaries paid in regards to total expenses has been maintained these last years. The Banks share with the employees the cost of group life insurance, hospitalization insurance and contribute to the Employees' Pension Funds. Furthermore the Banks grant bonuses to the members of their staffs.

241. Other Operating Costs - The increase in expenses reflects the expansion of the Banks in the course of the last four years and the extension of their

services to the public.

Policies and Practices relating to Reserves:

242. The Quebec Savings Banks follow the rules issued by the Minister of Finance in respect to policies and practices relating to valuation reserves and the reserves against bad and doubtful debts.

243. Realizable values are determined as follows for the purpose of calculating permitted specific reserves: under these rules, specific reserves are permitted on all classes of bond investments in order to bring the book value down to market value. Exceptions to these rules are bond holdings of the Government of Canada, Canadian Provinces and Federal and Provincial guaranteed bonds which are published at amortized cost.

244. Specific reserves in respect of stocks held for Investment Account, which may be required to reduce the book value to market value, are charged against Tax Paid Reserve.

245. Specific reserves are also established for doubtful debts, on certain categories of loans, to reduce the book value of these loans to estimated realizable value.

Selection, Training and Promotion of Personnel:

246. (a) Personnel Recruiting and Selection - Recruiting is done mostly amongst young people since the banking career requires many years of training. However, this policy does not preclude older persons with special qualifications from being hired.

247. Most of the personnel is recruited amongst

high school graduates.

248. (b) Aptitude Tests - After an interview with the recruiting officer and the passing of a summary examination, the applicant is submitted to certain psycho-technical tests. The purpose of the psycho-technical tests is to bring out the essential traits and the corresponding qualities of the candidate in relation to the requirements of the banking career.

249. (c) Personnel Training - Training is given by qualified monitors and through specialized courses.

250. The personnel training programme is continuous and extends to officers of all departments.

251. The Bank defrays the cost of all other professional courses such as: banking - administration - foreign languages - etc.

252. (d) Promotions - Promotions are given according to efficiency reports and seniority.

SECTION - VI - VIEWS ON THE CAPITAL MARKET

Workings of the Securities Markets:

253. The Quebec Savings Banks, at present, do not engage in the underwriting of municipal and corporate issues. But they are often invited to participate in certain large provincial issues as members of selling groups.

254. Their operations in this field being thus limited, they are not as concerned with the arrangements and practices in the securities markets as the investment dealers. Consequently, they prefer to leave to others, more familiar with the workings of the securities markets, the initiative of making suggestions on the subject.

Marketing and Trading of Mortgages:

255. No flexible arrangements seem to exist in Canada at the present time by which residential and non-residential mortgages could be traded quickly.

256. Mortgage money is plentiful in Canada at this juncture and marketing and trading of various classes of mortgages is done through the traditional channels.

257. There has been much talk in recent months of the possibility of establishing a Mortgage Bank in Canada. However, it appears that many problems would have to be ironed out before this project could be realized and some inequalities corrected as, for instance, the limitation imposed on the Quebec Savings Banks which are authorized to lend only to 40 per cent of their deposit

liabilities, and, up to 60 per cent of their valuation of the properties on which loans are considered, whilst many other mortgage lenders are authorized to loan up to 66-2/3 per cent.

258. In addition, uniformity of provincial laws regulating mortgages would have to be established.

259. Also if the money has to be paid quickly, guarantees would be needed to insure that the title to the property is good.

Response of Capital Market to Monetary and Financial Policy:

260. We endorse the views expressed by Mr. Wric W. Kierans, in a talk given in 1960, when he said, we quote: "Too much importance should not be given to the capital market as a medium for the exercise of monetary and financial policy. High interest rates for example, are not fully effective in stemming excessive spending and investment. One could go further and say that high interest rates have a discriminatory effect in that they tend to restrict long-term investment in utilities and social projects, housing, highways, schools, hospitals, etc. and are, at the same time, virtually powerless to affect the volume of investment in private industry. The extent to which business investment is insensitive to changes in interest rates, or the capital market, is indicated by the following table:

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Relevance of Capital Market to Monetary and Financial Policy

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SOURCES OF FUNDS - 603 COMPANIES
1936 - 1951

	Millions of Dollars	Per Cent
Retained Earnings	1849.	34.
Depreciation	2625.	48.2
Bonds (Net)	466.	8.6
Preferred (Net)	58.	1.1
Common Stock	442.	8,1
	5440.	;00.0

Over a period of 16 years, 603 major corporations financed 82.2 per cent of their growth by internal funds, 9 per cent by bonds, 8 per cent by common stock and 1 per cent by preferred. In other words, interest rate policy may be effective in reducing or increasing provincial or municipal investment but has no appreciable effect on business men's decisions to invest."

261. In the granting of mortgage loans, we believe that the direct application of controls to the term of credit is more effective, and would bring quicker results, that the control through ratios of specified assets to liabilities of financial institutions.

262. The Quebec Savings Banks have not been too active recently in National Housing Act loans and ratio controls, applied to them, would be less effective than direct control.

Gaps in the Canadian Capital Market:

263. Gaps certainly exist in the Canadian capital market with respect to capital for relatively small new or untried projects.

264. Although the lending powers of the

[illegible]

1936 - 1951

	Millions of Dollars	Per Cent
Retained Surplus	[illegible]	[illegible]
Depreciation	[illegible]	[illegible]
Bonds (Net)	466.	8.6
Preferred (Net)	58.	1.1
[illegible]	[illegible]	[illegible]
	5440.	100.0

Over a period of 16 years, 603 major corporations financed 82.2 per cent of their growth by internal funds, 9 per cent by bonds, 8 per cent by common stock and 1 per cent by preferred. In other words, interest rate policy may be effective in reducing or increasing provincial or municipal investment but has no appreciabl[e] effect on business men's decisions to invest."

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Gaps in the Canadian Capital Market:

263. Gaps certainly exist in the Canadian capital market with respect to capital for relatively small new or untried projects.

264. Although the lending powers of the

Industrial Development Bank have been enlarged, many small enterprises still find it very difficult to get capital for their current operations and growth.

265. The Quebec Savings Banks do not participate in the financing of such enterprises. They have always been conservative in the investment of the savings entrusted in their care and the limitations of the law preclude them from going heavily into risk capital.

266. This financing being beyond their field of operation, the Quebec Savings Banks refrain from offering suggestions as to the ways and means of closing such gaps, although they are aware that the question is under study by provincial governments and certain groups.

[illegible]

capital for their current operations and growth.

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[illegible] the Quebec Savings Banks [illegible] offering suggestions as to the ways and means of closing such gaps, although they are aware that the question is under study by provincial governments and certain groups.

CONCLUSIONS

267. The Quebec Savings Banks are proud of their history and of the fact that they were the first institutions in Canada having for special aim the encouragement of thrift and the insuring of a high degree of security for the monies entrusted to their care. Although they have had to weather many storms, economical and political, and they are meeting increasing competition, their progress shows that they have continued to enjoy the confidence of the public during a length of time unsurpassed by any other Canadian savings institution.

268. The Quebec Savings Banks sincerely hope that the brief they have presented has demonstrated conclusively their value and the very important and unique role they play. They also hope it has shown that no other institutions can, or do, fill exactly the same functions, nor can serve as efficiently the thrifty, and provide as complete a financial service to the individual and the family.

269. The Quebec Savings Banks trust that the Royal Commission on Banking and Finance will concur in the views and suggestions presented herein, and the recommendations made concerning amendments to the Quebec Savings Banks Act, in order that they be allowed to still better serve and help the increasing number of savers who deal with them with perfect confidence and peace of mind, and who are attached to the Quebec Savings Banks by strong bonds of friendship and an absolute feeling of security.

[illegible]

257. [illegible] Quebec Savings Banks [illegible] [illegible] first institutions in Canada having for special aim the encouragement of thrift and the insuring of a high degree of security for the monies entrusted to their care. Although they have had to weather many storms, economical and political, and they are meeting increasing competition their progress shows that they have continued to enjoy the confidence of the public during a length of time unsurpassed by any other Canadian savings institution.

258. The Quebec Savings Banks sincerely hope that the brief they have presented has demonstrated conclusively their value and the very important and unique role they play. They also hope it has shown that no other institutions can, or do, fill exactly the same functions, nor can serve as efficiently the thrifty, and provide as complete a financial service to the individual and the family.

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Royal Commission on Banking and Finance

SCHEDULE I

To Brief of the Quebec Savings Banks

S Y N O P S I S O F

LEGISLATION AFFECTING THE QUEBEC SAVINGS BANKS

1. 4/5 Victoria Chapter 32.

   An Act to encourage the establishment of, and regulate Savings Bank in this Province. (Province of Canada) 1841.

2. 25 Victoria Chapter 66.

   An Act to extend and define the powers of the Montreal City and District Savings Bank. (1862)

3. 34 Victoria Chapter 7.

   An Act respecting certain Savings Banks in the Province of Ontario and Quebec. (1871)

4. Charter under the great Seal. 21 April 1871, Ref. No.2066.

5. 36 Victoria Chapter 72.

   Act to amend the Act relating certain Savings Banks in the Province of Ontario and Quebec. (1873).

6. 44 Victoria Chapter 8.

   An Act to further amend the act relating to certain Savings Banks in the Provinces of Ontario and Quebec and to prorogue during a certain limited time the charter of certain Banks to which the said act applies. (1881).

7. 53 Victoria Chapter 32.

   An Act respecting certain Savings Banks in the Province of Quebec (1890).

8. 60/61 Victoria Chapter 9.

   An Act to amend "An Act respecting certain Savings Banks in the Province of Quebec" (1897).

9. 63/64 Victoria Chapter 28.

   An Act to amend the Acts respecting certain Savings Banks in the Province of Quebec (1900).

10. 1/2 Geo. V., Chapter 21.

    An Act to amend the Quebec Savings Bank Act. (1911).

11. 2 Geo. V., Chapter 46.

    An Act to amend the Quebec Savings Bank Act. (1912).

SCHEDULE I
page 2

12. 3/4 Geo. V., Chapter 42.

An Act respecting certain Savings Banks in the Province of Quebec. (1913).

13. 13/14 Geo. V., Chapter 66.

An Act to amend the Quebec Savings Bank Act. (1923).

14. SUPPLEMENTARY CHARTER under the Great Seal (5th June 1930).

15. 23/24 Geo. V., Chapter 28.

An Act to amend the Quebec Savings Bank Act. (1933).

16. 24/25 Geo. V., Chapter 39.

An Act to amend the Quebec Savings Bank Act. (1934).

17. 8 Geo. VI, Chapter 47.

An Act to amend the Quebec Savings Bank Act. (1944).

18. 11/12 George VI, Chapter 65.

An Act to amend the Quebec Savings Bank Act. (1948).

19. 15 George VI, Chapter 35.

An Act to amend the Quebec Savings Bank Act. (1950).

20. 2/3 Elizabeth II, Chapter 41.

An Act respecting Savings Banks in the Province of Quebec. (1954.)

21. 5/6 Elizabeth II, Chapter 12.

An Act to amend the Quebec Savings Bank Act. (1957).

Royal Commission on Banking and Finance

SCHEDULE II

To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

GENERAL STATEMENT AS AT DECEMBER 31, 1961.

ASSETS

1.	Notes of and deposits with Bank of Canada and deposits with chartered banks in Canadian currency.	$ 21,013,907.62	
2.	Other cash, deposits with and balances due from other banks	$ 12,048,003.19	
3.	Government of Canada direct and guaranteed securities, not exceeding amortized value	$ 33,262,908.47	
4.	Canadian provincial government direct and guaranteed securities, not exceeding amortized value	$ 70,911,031.34	
5.	Canadian municipal and school corporation securities, not exceeding market value	$ 30,823,343.78	
6.	Other Canadian securities and shares not exceeding market value	$ 17,591,282.29	
7.	Securities and shares, other than Canadian, not exceeding market value .	- - - - - -	
8.	Mortgages and hypothecs insured under the National Housing Act, 1954. . . .	$ 10,033,167.35	
9.	Other first mortgages and hypothecs, less provision for estimated loss . .	$ 59,761,216.47	
10.	Loans otherwise secured, less provision for estimated loss	$ 7,280,563.46	
11.	Loans without security, less provision for estimated loss	$ 7,669,372.93	
12.	Poor Fund investments	$ 180,000.00	
13.	Bank premises at cost, less amounts written off	$ 7,000,000.00	
14.	Other assets	$ 105,010.05	
			$277,679,806.95

LIABILITIES

TO THE PUBLIC·

1.	Deposits by Government of Canada. . .	$ 6,674,843.00	
2.	Deposits by Canadian provincial governments	- - - - - - -	
3.	Deposit liabilities to the public . .	$ 259,142,885.12	
4.	Advances from Bank of Canada, secured..	- - - - - - -	
5.	Advances from chartered banks, secured..	- - - - - - -	
6.	Poor Fund or Charity Fund Trust. . . .	$ 180,000.00	
7.	Other liabilities	$ 979,954.27	
			$266,977,682.39

TO THE SHAREHOLDERS:

8.	Capital paid up	$ 2,000,000.00	
9.	Rest Account	$ 8,500,000.00	
10.	Undivided profits	$ 202,124.56	
			$ 10,702,124.56
			$277,679,806.95

Royal Commission on Banking and Finance

SCHEDULE II-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

GENERAL STATEMENT AS AT DECEMBER 31, 1961.

ASSETS

1.	Notes of and deposits with Bank of Canada and deposits with chartered banks in Canadian currency	$ 3,130,906.	
2.	Other cash, deposits with and balances due from other banks	$ 1,560,211.	
3.	Government of Canada direct and guaranteed securities, not exceeding amortized value	$ 3,450,504.	
4.	Canadian provincial government direct and guaranteed securities, not exceeding amortized value	$ 17,781,128.	
5.	Canadian municipal and school corporation securities, not exceeding market value	$ 13,455,905.	
6.	Other Canadian securities and shares not exceeding market value	$ 7,332,236.	
7.	Securities and shares, other than Canadian, not exceeding market value	------	
8.	Mortgages and hypothecs insured under the National Housing Act, 1954	------	
9.	Other first mortgages and hypothecs, less provision for estimated loss	$ 7,495,079.	
10.	Loans otherwise secured, less provision for estimated loss	$ 974,420.	
11.	Loans without security, less provision for estimated loss	$ 1,070,893.	
12.	Poor Fund investments	$ 83,000.	
13.	Bank premises at cost, less amounts written off	$ 1,447,944.	
14.	Other assets	$ 45,590.	$57,827,816.

LIABILITIES

TO THE PUBLIC:

1.	Deposits by Government of Canada	$ 632,204.	
2.	Deposits by Canadian provincial governments	$ 3,521,327.	
3.	Deposit liabilities to the public	$ 47,343,712.	
4.	Advances from Bank of Canada, secured	$ ------	
5.	Advances from chartered banks, secured	$ 2,628,500.	
6.	Poor Fund or Charity Fund Trust	$ 83,000.	
7.	Other liabilities	$ 102,882.	$54,311,625.

TO THE SHAREHOLDERS:

8.	Capital paid up	$ 1,000,000.	
9.	Rest Account	$ 2,000,000.	
10.	Undivided profits	$ 516,191.	$ 3,516,191.
			$57,827,816.

Royal Commission on Banking and Finance

SCHEDULE III

To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

STATISTICAL SUMMARY

YEAR	Total Assets	Savings Deposits	Reserve Fund	Paid-up Capital	Undivided Profits	Net Profit	Surplus for year
	$	$	$	$	$	$	$
1905	20,246,215	18,417,194	800,000	600,000	51,006	149,919	24,919
1915	32,039,825	29,078,393	1,350,000	1,000,000	121,552	220,266	60,266
1925	57,780,664	53,695,127	1,800,000	1,498,570	149,613	276,554	76,745
1935	60,962,791	54,648,486	2,500,000	2,000,000	350,121	372,717	92,717
1945	118,864,931	109,452,558	3,750,000	2,000,000	131,018	420,984	140,984
1946	133,725,916	124,101,056	3,750,000	2,000,000	261,627	455,759	145,759
1947	146,651,530	137,384,339	4,000,000	2,000,000	177,153	462,826	182,826
1948	157,070,227	148,018,285	4,000,000	2,000,000	350,213	472,260	192,260
1949	170,771,432	161,236,102	4,000,000	2,000,000	543,485	493,172	213,172
1950	175,259,056	165,624,628	4,500,000	2,000,000	239,111	499,226	219,226
1951	176,348,654	166,088,336	4,750,000	2,000,000	168,748	506,587	206,587
1952	187,442,110	177,976,630	5,000,000	2,000,000	136,160	540,062	240,062
1953	193,769,007	183,272,627	5,000,000	2,000,000	380,402	588,217	268,217
1954	206,025,789	197,208,160	6,000,000	2,000,000	159,519	623,317	303,317
1955	220,631,044	211,385,756	6,000,000	2,000,000	445,024	670,355	310,355
1956	226,974,116	217,536,967	6,500,000	2,000,000	258,155	698,731	338,731
1957	239,472,506	220,347,463	6,750,000	2,000,000	322,991	722,686	342,686
1958	251,731,174	235,274,092	7,000,000	2,000,000	424,016	764,725	374,725
1959	253,609,157	232,006,030	7,500,000	2,000,000	299,539	821,173	401,173
1960	258,513,627	242,054,047	8,000,000	2,000,000	202,884	906,895	426,895
1961	277,679,807	259,142,885	8,500,000	2,000,000	202,125	1,009,240	499,240

Royal Commission on Banking and Finance

SCHEDULE III-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

STATISTICAL SUMMARY

YEAR	Total Assets	Savings Deposits	Reserve Fund	Paid-up Capital	Undivided Profits	Net Profit	Surplus for year
	$	$	$	$	$	$	$
1935	16,143,602	13,120,934	1,500,000	1,000,000	295,856	191,170	71,170
1940	15,843,973	12,371,193	2,000,000	1,000,000	199,107	168,529	48,529
1945	24,307,988	20,724,038	2,000,000	1,000,000	292,356	132,283	32,283
1950	26,531,467	22,934,693	2,000,000	1,000,000	429,171	125,691	25,691
1951	29,683,992	26,086,867	2,000,000	1,000,000	441,642	112,471	12,471
1952	30,407,618	25,453,550	2,000,000	1,000,000	442,653	101,011	1,011
1953	33,085,332	27,360,990	2,000,000	1,000,000	444,063	111,409	1,409
1954	37,860,718	31,591,870	2,000,000	1,000,000	445,300	111,237	1,237
1955	43,896,184	38,989,705	2,000,000	1,000,000	447,094	111,793	1,793
1956	45,942,554	38,161,453	2,000,000	1,000,000	448,689	111,594	1,594
1957	46,829,934	39,594,440	2,000,000	1,000,000	449,818	111,129	1,129
1958	52,150,882	47,484,592	2,000,000	1,000,000	451,465	126,646	1,646
1959	45,316,559	40,281,116	2,000,000	1,000,000	452,947	126,482	1,482
1960	53,560,421	47,834,580	2,000,000	1,000,000	475,622	172,674	22,674
1961	58,678,484	52,080,248	2,000,000	1,000,000	516,190	210,568	40,568

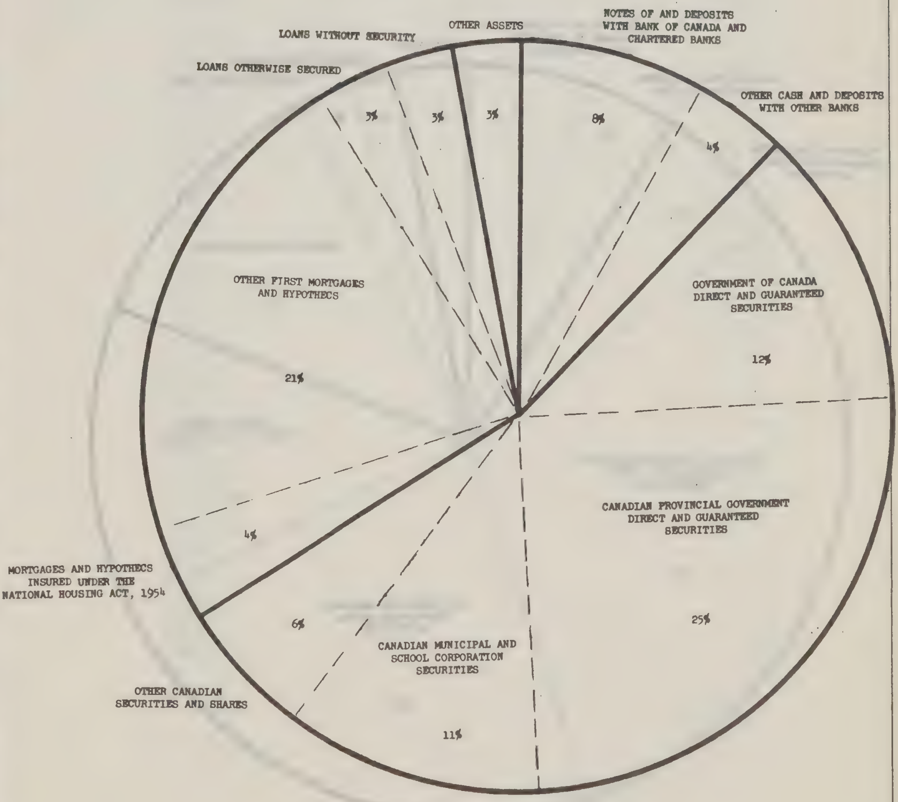
Royal Commission on Banking and Finance

SCHEDULE IV

To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

CLASSES OF ASSETS AND THEIR PROPORTION TO TOTAL ASSETS
AS AT DECEMBER 31, 1961



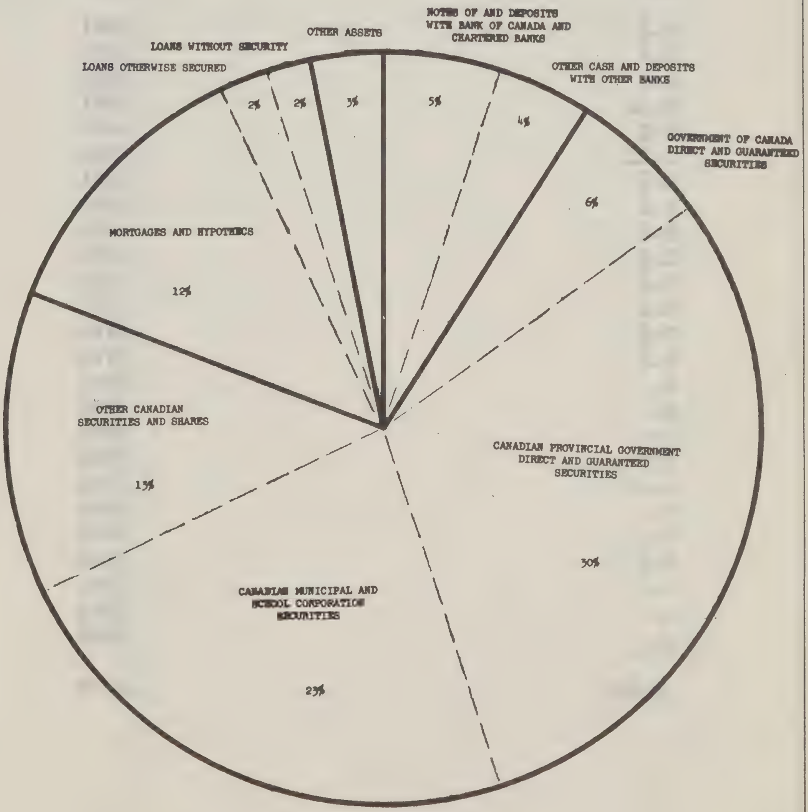
Royal Commission on Banking and Finance

SCHEDULE IV-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

CLASSES OF ASSETS AND THEIR PROPORTION TO TOTAL ASSETS
AS AT NOVEMBER 30, 1961



Royal Commission on Banking and Finance

SCHEDULE V

To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

MATURITIES OF BOND INVESTMENTS AS AT DECEMBER 31, 1961.

Years	%
1962	8.0
1963	8.0
1964	6.0
1965	13.6
1966	9.1
1967	12.0
1968	8.0
1969	6.5
1970	2.6
1971	2.2
1972	6.0
1973	1.2
1974	2.0
1975	4.3
1976	.9
1977	.4
1978	---
1979	.2
1980	---
1981	.7
1982	---
1983	7.8
1984	---
1985	.1
1986	.4
Total	100%

Average Maturity: 7 years 1 month.

Royal Commission on Banking and Finance

SCHEDULE V-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

MATURITIES OF BOND INVESTMENTS AS AT DECEMBER 31, 1961.

Years	%
1962	3
1963	1
1964	6
1965	1
1966	4
1967	2
1968	1
1969	3
1970	4
1971	2
1972	3
1973	3
1974	4
1975	4
1976	6
1977	10
1978	3
1979	7
1980	10
1981	8
1982	6
1983	2
1984	1
1985	2
1986	1
1987	2
1992	1
Total	100%

Average Maturity: 12 years 4 months.

Royal Commission on Banking and Finance

SCHEDULE VI

To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

DATA ON THE RATE OF WITHDRAWAL OF DEPOSITS

YEAR	RATE
1955	174%
1956	185%
1957	198%
1958	186%
1959	196%
1960	179%
1961	183%

Royal Commission on Banking and Finance

SCHEDULE VI-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

DATA ON THE RATE OF WITHDRAWAL OF DEPOSITS

YEAR	RATE
1955	245.5%
1956	320.9%
1957	341.9%
1958	325.6%
1959	334.1%
1960	267.8%
1961	243.3%

Royal Commission on Banking and Finance

SCHEDULE VII

To Brief of the Quebec Savings Banks

COMPARATIVE INTEREST RATES PAID AND CHARGED

	Rate of Interest Paid on Savings Accounts	Rate of Interest Charged on First Mortgage Loans	Rate of Interest Charged on Personal Loans
QUEBEC SAVINGS BANKS	$2\frac{3}{4}\%$	$6\frac{3}{4}\%$	6% (maximum fixed by law)
COMMERCIAL BANKS	$2\frac{3}{4}\%$	$6\frac{1}{2}\%$ (N.H.A.LOANS)	6% (maximum fixed by law)
CAISSES POPULAIRES	$2\frac{3}{4}\% - 3\frac{1}{2}\%$	6% - 7%	6% and up
TRUST COMPANIES	$3\frac{1}{2}\%$ and up depending on term	$6\frac{3}{4}\% - 7\frac{1}{2}\%$	

Royal Commission on Banking and Finance

SCHEDULE VIII

To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

SOURCES OF INCOME AND ADMINISTRATION COSTS

REVENUES	1958	1959	1960	1961
Securities	57%	54%	52%	47%
Loans	28%	30%	33%	36%
Deposits in other Banks	3%	4%	4%	6%
Other Operating Income	12%	12%	11%	11%
	100%	100%	100%	100%

INTEREST & ADMINISTRATIVE COSTS	1958	1959	1960	1961
Interest paid to Depositors	57%	56%	55%	53%
Salaries & Fringe Benefits	27%	27%	27%	27%
Other Operating Costs	16%	17%	18%	20%
	100%	100%	100%	100%

Royal Commission on Banking and Finance

SCHEDULE VIII-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

SOURCES OF INCOME AND ADMINISTRATION COSTS

REVENUES	1958	1959	1960	1961
Securities	61%	60%	63%	67%
Loans	27%	26%	26%	23%
Deposits in other Banks	1.6%	1.7%	1.6%	1.4%
Other Operating Income	10.4%	12.3%	9.4%	8.6%
	100%	100%	100%	100%

INTEREST & ADMINISTRATIVE COSTS

Interest paid to Depositors	51%	51%	50%	50%
Salaries & Fringe Benefits	20%	20%	20%	20%
Other Operating Costs	29%	29%	30%	30%
	100%	100%	100%	100%

Royal Commission
on
Banking and Finance

Hearings
held at

Fredericton

Vol.	Date.
19	June 6 1962

Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.

Fredericton, New Brunswick
Monday, June 4th, 1962.

ROYAL COMMISSION ON BANKING

AND FINANCE

I N D E X

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The Government of the Province of New Brunswick	1968

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Fredericton,
New Brunswick, on Monday,
June 4th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Fredericton, New Brunswick
Monday, June 4th, 1962.

THE CHAIRMAN: It is with very great pleasure that we find ourselves in Fredericton this morning to hold our first meeting in the Maritimes Provinces here. We have already covered the western part of the country and the central part of the country and our climax is the Maritimes.

It is a very great honour to have present this morning the Honourable Mr. Robichaud, Premier of New Brunswick, and with him the Honourable Mr. DesBrisay, the Treasurer of the Province, also the deputy, Mr. Gallagher. I understand, Mr. Premier, that your government is presenting a submission which in fact we have read with great care and interest and find it admirably prepared and it raises many points that we would like to discuss and have further information about. We are looking forward to this hearing with the greatest of interest.

HON. MR. ROBICHAUD: Mr. Chairman and members of the Commission, I do not know if I should refer to you as Mr. Chairman because you have so many titles. I don't know whether to refer to you as Your Lordship, the Honourable Mr. Porter or Mr. Chairman.

THE CHAIRMAN: As long as you get down to the facts.

HON. MR. ROBICHAUD: In any event, I wish to welcome you to this province here as well as the other members of the Commission. Of course it would be futile for me to stress the importance of this Commission

Fredericton, New Brunswick
Monday, June 4th, 1962.

THE CHAIRMAN: It is with very great pleasure that we find ourselves in Fredericton this morning to hold our first meeting in the Maritimes Provinces here. We have already covered the western part of the country and the central part of the country and our climax is the Maritimes.

[illegible] this morning the Honourable Mr. Robichaud, Premier of New Brunswick, and with him the Honourable Mr. DesBrisay, the Treasurer of the Province, also the [illegible] that your government is presenting a submission which in fact we have read with great care and interest and find it admirably prepared and it raises many points that we would like to discuss and have further information about. We are looking forward to this hearing with the greatest of interest.

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THE CHAIRMAN: As long as you get down to the facts.

HON. MR. ROBICHAUD: In any event, I wish to [illegible] members of the Commission. Of course it would be futile for me to stress the importance of this Commission

to Canada's economy generally but particularly perhaps to this area. That will be done by my esteemed colleague Mr. DesBrisay, assisted by the well qualified Mr. Gallagher.

You have just said that you have read the brief. We take a certain amount of pride in this brief. I personally feel that it has been well prepared. There has been a lot of time, effort and research work devoted to it and I hope that it will make a contribution to the conclusions that will be reached by you.

You will find that despite the economic ills that perhaps plague the Atlantic area that the people here are extremely warm and friendly. As evidence of that just as I turned the corner this morning (I was walking by myself from the office to here) a car stopped and a chap said, "Hey fellow, can you tell me where Queen Street is?". I said, "It is right here, fellow". That is the way that people operate in this province.

I understand that the last Commission of this nature took place in the early 1930's. It produced results then and I am sure that this one will. Without any further remarks I shall now leave it to the Minister of Finance to carry on from here and I apologize if I have to heave here. I can give you the reason why. The Ambassador of Japan is here and apparently he wishes to see me. So I will wish you the best of luck and again a warm welcome to New Brunswick and the Atlantic Provinces.

Mr. DesBrisay, assisted by the well qualified Mr. Gallagher.

brief. We take a certain amount of pride in this brief. I personally feel that it has been well prepared. There has been a lot of time, effort and research work devoted to it and I hope that it will make a contribution to the conclusions that will be reached by you.

You will find that despite the economic ills that perhaps plague the Atlantic area that the people here are extremely warm and friendly. As evidence of that just as I turned the corner this morning (I was walking by myself from the office to here) a car stopped and a chap said, "Hey fellow, can you tell me where Queen Street is?". I said, "It is right here, fellow". That is the way that people operate in this province.

I understand that the last Commission of this nature took place in the early 1950's. It produced results then and I am sure that this one will. Without any further remarks I shall now leave it to the Minister of Finance to carry on from here and I

reason why. The Ambassador of Japan is here and apparently he wishes to see me. So I will wish you the best of luck and again a warm welcome to New Brunswick and

Good day, gentlemen.

THE CHAIRMAN: Thank you very much.

Mr. DesBrisay?

SUBMISSION OF THE GOVERNMENT OF THE PROVINCE OF NEW BRUNSWICK

APPEARANCES

Hon. G. DesBrisay	-	Minister of Finance
Mr. T.J. O'Brien	-	Deputy Minister of Finance
Mr. D.W. Gallagher	-	Economic Advisor
Mr. Edwin Allen	-	Deputy Minister of Municipal Affairs
Mr. Wm. McNichol	-	Comptroller-General

HON. MR. DesBRISAY: Mr. Chairman and members of the Royal Commission, perhaps I should, if I may, remain seated.

THE CHAIRMAN: Oh yes, the proceedings are quite informal.

HON. MR. DesBRISAY: As has been mentioned you have our brief and I would like to make some brief remarks on the presentation of it. I would like to say that it is both a pleasure and honour for me to appear before this Commission to present the submission of the Government of New Brunswick. In doing so, I should emphasize the great responsibility which rests, not only with the Commission itself, but with

all those in a position to contribute to its deliberations. In attempting to meet this responsibility, we have had to recognize certain limitations which have presented the forming of precise conclusions on many of the points of interest to the Commission. In some cases, the province's experience has been limited or narrowly confined so that it would have little general application; in other cases, the lack of proper data has been the barrier.

We have, therefore, confined our comments to those areas in which we felt competent to form a judgment. In the process, we necessarily placed a broad interpretation on the Commission's terms of reference. Such an interpretation is highly relevant to the Government's submission, and perhaps constitutes its first important recommendation. It is our hope that the Commission will agree with this approach and that its policy recommendations will be developed accordingly. Particularly, we are concerned with the relationships between fiscal and monetary policies, and it is our view that an appropriate "mix" of such policies can only be considered after a careful consideration of the role that each can play in meeting the economic needs of the country. In this respect, it is essential to underline the fact that such needs vary from region to region and thatpolicies must be sufficiently flexible to recognize this.

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It was within this rather broad context that

the Province undertook to express its views to the Royal Commission on Banking and Finance. Basically, these views fall into two categories, both of which represent an important part of the responsibilities of the New Brunswick Government. The first part deals with the experience of the Government as a borrower in the capital markets. We have not outlined the Province's experience as a lender of funds, since our activities in this area have not been particularly extensive. The second part of the Government submission is concerned with the economic implications of financial policies, and the implications of the financial system itself as a part of the Canadian economy. Our conclusions and recommendations are, therefore, presented in accordance with this broad division.

Financing Provincial Government Requirements

The problems encountered by the Government in making regular demands on capital markets are essentially related to patterns of spending and taxing, as well as borrowing.

The projected growth in government expenditures, in conjunction with a somewhat restricted tax potential, points to an increasing reliance on capital markets. With the increase in other demands from the same market, it is quite likely that the Province will experience difficulty in obtaining its capital requirements. This is the result of institutionally established "limits" on New Brunswick borrowing, the difficulties in entering the United

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States market, and the slower rate of advancement of the economy.

Generally, we have concluded that, for the long run, to assist provinces in obtaining capital requirements, some attempt should be made to reduce the requirements themselves. In the short term some means must be developed to insulate the Province and its municipalities from the effects of policies of credit restraint. To meet such needs and to overcome these difficulties we have recommended:-

1. That Provincial borrowing requirements be reduced by adjusting Federal-Provincial shared-cost programmes to reflect the concept of fiscal need and to introduce more flexibility in the administration, planning and timing of such programmes.

2. That Federal-Provincial shared-cost programmes be initiated in the field of economic development, with emphasis on the needs of the less developed parts of Canada, as a means of increasing the Province's ability to meet its own financial requirements in the long run.

3. That a study be undertaken to determine the adequacy of Canadian capital markets to meet domestic needs, particularly with a view to determine the role which the United States market should play in municipal and provincial borrowing.

4. That selective instruments be designed to shelter certain classes of borrowers from the effects of monetary restraint and to provide interim assistance to subh borrowers as require it.

5. That closer relationships be developed between the Federal Government and the Bank of Canada and the provinces, both to assist the provinces in financing and to promote the co-ordination of Federal and Provincial borrowing and investment policies.

Economic Implications of Financing Policies

We have concluded that monetary policy has not been sufficiently co-ordinated with fiscal policy (or vice versa) in recent years, and that monetary policy alone is not a sufficiently powerful weapon to provide short-term economic stability. In attempting to do so, certain side effects have been inappropriate to the needs of the New Brunswick economy.

We have concluded that, to alleviate such side effects, will require greater co-ordination between fiscal and monetary policy, and the introduction of more selectivity in the instruments of monetary policy. As well, certain other adjustments to Federal policy are required. Specifically, we have recommended that:-

1. A form of standing committee be appointed to ensure the integration of monetary policy with Government fiscal and economic policy. Associated with this objective and also to fully co- ordinate Federal economic policies with those of the provinces, we recommended the establishment of an economic advisory board to the Federal Government -- a board to exist outside the departmental framework.

2. In order to develop a monetary policy which

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is sufficiently flexible to meet regional as well as national needs, that the Bank of Canada Act be amended to make explicit the responsibilities of the Bank of Canada with respect to the various regions.

3. The Bank of Canada exercise its powers of persuasion over the chartered banking system to exempt the Atlantic region from the full force of credit restriction, when applied nationally.

4. To increase the availability of capital in the region, the operations of the Industrial Development Bank be altered to permit regional interest rate differentials and levels, to offset the effect of inter-regional capital flows, and to promote greater co-operation with Provincial industrial development agencies.

5. Operations of the Central Mortgage and Housing Corporation be altered to make mortgage funds available on easier terms in economically retarded areas when more arduous terms are necessary in the economy as a whole.

6. Greater flexibility in administration be introduced into agricultural credit policies to permit the varying requirements of New Brunswick agriculture to be more fully met.

These recommendations are designed to permit more selective monetary controls, with a co- ordinated framework of fiscal and monetary policy. However, it is doubtful that monetary policies, however selective, will play more than a minor role in the policy

structure required to produce more rapid rates of economic growth.

To meet this objective in New Brunswick and the entire Atlantic region, will not involve great dependence upon traditional forms of monetary policy. It will, however, entail the use of fiscal policies, both as alternatives and substitutes, which will have important implications for the financial system.

Moreover, we have concluded that monetary policy, applied to imperfectly operating capital markets, has not been particularly effective in recent years. This points to the need for both greater emphasis on fiscal policies and for broadening the area of impact of monetary policy if the objectives of full employment, economic growth and price stability are to be met. This is true nationally, but is particularly so in New Brunswick and the Atlantic region.

With this context, we have recommended that:-

1. A national development policy be adopted with the objective of achieving more balanced economic growth in Canada, and under which retarded or underdeveloped areas would be given special treatment through the large-scale allocation of Federal funds for development purposes.

2. The Government of Canada accept, explicitly, full responsibility for both fiscal and monetary policy.

3. The Commission investigate the possibility of broadening the area of impact of monetary policy

structure required to produce more rapid rate of economic growth.

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2. The Government of Canada accept, explicitly, full responsibility for both fiscal and monetary policy.

3. The Commission recognizes the possibility [illegible]

(or of fiscal policy as a substitute) to reflect the changing environment of the past two decades. Specifically, we believe that the effects of monetary policy should be felt by consumer finance companies and other non-bank holders of liquidity. This investigation by the Commission should include as well the impact of the concentration of large holdings of bonds in a few institutions, and the concentration of economic power in both business and labour.

4. A Federal regulatory body be established to govern the issuance and sale of securities.

While our brief is concerned mainly with New Brunswick, the policies we suggest have direct application to all regions of Canada suffering from a chronic under-utilization of their resources. Indeed, it could not be otherwise given the nature of Canadian federalism and the division of financial resources and constitutional responsibilities and authority between the provinces and the Federal Government. In particular, only the Federal Government has the economic and other resources necessary to provide equitable solutions to the economic problems of chronically retarded areas of the Confederation. National policies must be developed to cope with these problems; but first, there must come recognition and acceptance on the part of the Federal Government that regional economic problems are matters of national concern.

Mr. Chairman, this is a brief summary of our presentation which we made some time ago to you,

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Mr. Chairman, this is a brief summary of [illegible]

and we stand ready to carry on with any questions you may have.

THE CHAIRMAN: Thank you very much, Mr. Minister.

COMMISSIONER BROWN: Mr. DesBrisay, I wonder if I might start off by asking if you could give us a little more detail of the problems that you enumerate in paragraph 11 where you discuss the increased financial burdens of junior governments largely because of federal cost-sharing programmes.

HON. MR. DesBRISAY: Yes, there are large numbers of cost-sharing programmes being offered by the federal government to be accepted by the provinces. We feel there are certain of these that some of the less wealthy provinces might not be able to afford on a short-term basis, but we are pretty well forced into a lot of these programmes. Using for detail purposes, we are into Trans Canada Highway programmes as one major expenditure which is a cost-sharing programme; the roads to resources in the field of public works,and the technical training programme.

We are suggesting while these programmes are very good and we generally welcome them that we would like to have a little more selectivity on the part of the provincial government. We would like to be able to have a little more choice in selecting the programmes we feel would be most beneifcial to our New Brunswick economy.

COMMISSIONER BROWN: It is a very good

[illegible]

[illegible]

[illegible]

Minister.

COMMISSIONER SMITH: Mr. [illegible] [illegible] give us a little more detail of the problems that you enumerate in paragraph 11 where you discuss the increased financial burdens of justice government largely because of federal cost-sharing programmes.

HON. MR. [illegible]: Yes, there are [illegible] numbers of cost-sharing programmes being put forward by the federal government to be accepted by the provinces. We feel there are certain of those [illegible] [illegible] pretty well forced into a lot of these programmes. Using for detail purposes, we are into those [illegible] highway programmes as one major expenditure which is a cost-sharing programme that [illegible] [illegible] programme.

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[illegible]

presentation, but I was wondering if you could give us a little more specifically the types you would prefer to have. You say you would like to be able to choose more, but you don't say what your choices may be. You talk about economic development and roads to resources, which I would have thought would fit into that programme, but I gather that is not one.

HON. MR. DesBRISAY: That is one of the programmes we have found -- as a matter of fact, we are using that programme to develop our mining area, but we suggest on economic development there may be shared cost programmes by the federal government that we could join. Apart from the roads to resouces programme, this is practically the only programme, shared cost, that has any serious long-range economic effect.

THE CHAIRMAN: What about the Trans Canada Highway? Do you find that has increased economic development at all?

HON. MR. DesBRISAY: Unquestionably, Mr. Chairman, but what we find -- and I think we can say this very quickly -- is that 75 per cent, approximately, of all shared cost programmes are in the health and welfare field.

THE CHAIRMAN: Oh yes, that is what I was going to come to. Perhaps Mr. Brown has that in mind.

HON. MR. DesBRISAY: Which we are committed -- we have to accept.

THE CHAIRMAN: But with programmes such as the Trans Canada Highway and the roads to resources,

[illegible]

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HON. MR. DesBRISAY: Which we are committed -- we have to accept.

THE CHAIRMAN: But with programmes such as the Trans Canada Highway and the roads to resources.

they do apparently have some favourable economic result -- stimulate growth?

HON. MR. DesBRISAY: Very much so.

THE CHAIRMAN: There may be other potential programmes that you have in mind which you may in due course suggest to us.

HON. MR. DesBRISAY: Yes.

COMMISSIONER BROWN: This is what I was wanting to have a bit of discussion on, to get a little more explicit on what sort of programmes you are talking about that you are in regretfully and others you would like to be in.

HON. MR. DesBRISAY: We would be prepared to give you a suggested list as a supplement to our brief of some of the programmes which we think could be done on a shared cost basis with the federal government which would accelerate economic development within the province. I don't have any specific ones in detail at the moment, but we would be quite prepared to do that, and I think we could find a number.

COMMISSIONER MACKINTOSH: But in the main your point is emphasis on development programmes rather than welfare programmes?

HON. MR. DesBRISAY: That is it, yes. I repeat again, we find ourselves where approximately 75 per cent is in the health and welfare field.

COMMISSIONER GIBSON: And you would like to be able to take, in choosing between this, more development and less of the others -- say, take two of one instead of one of each?

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[illegible]

HON. MR. DesBRISAY: Very much so.

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COMMISSIONER MACKINTOSH: But in the main your point is emphasis on development programmes [illegible]

HON. MR. DesBRISAY: That is right. I repeat again, we find ourselves where approximately 45 per cent is in the health and welfare field.

COMMISSIONER GIBSON: And you would like to [illegible]

HON. MR. DesBRISAY: Yes, we would like to be able to sit down and talk with the federal authorities on selecting programmes which would have a long run economic development programme.

COMMISSIONER MacKEEN: In other words, now you are told what the programme is and given a sort of assessment of your share of it without too much control over it; is that it?

HON. MR. DesBRISAY: While we do have a certain amount of control, generally that is the case.

COMMISSIONER MacKEEN: In effect?

HON. MR. DesBRISAY: In effect, yes.

THE CHAIRMAN: If you don't accept the offer, then you get into trouble?

HON. MR. DesBRISAY: We find it very difficult to avoid getting into them.

THE CHAIRMAN: Yes, I fully appreciate that.

COMMISSIONER BROWN: When you are talking about government revenues and government taxation, to what extent is this evened up by the federal grants?

HON. MR. DesBRISAY: You are referring to paragraph ...?

COMMISSIONER BROWN: Paragraph 14, and table 2, I guess it is, in the Appendix. You talk about your net general provincial and municipal revenue. To a certain extent, this is evened up, isn't it, by your federal grants?

HON. MR. DesBRISAY: The equalization policy-- the equalization formula applies only to three tax fields -- the three main tax fields. So, there is a

large area of tax fields which is not equalized.

COMMISSIONER BROWN: Can you give any approximation on how your figures come up by the time you have added in your tax equalization grants?

MR. GALLAGHER: You are referring to the table at the back?

COMMISSIONER BROWN: Yes.

MR. GALLAGHER: In that table we have included, for example, revenue items such as the Atlantic Provinces Adjustment Grant.

COMMISSIONER BROWN: That is included?

MR. GALLAGHER: That is included, yes.

COMMISSIONER BROWN: I didn't realize that. It indicated these were percentages of net per capita taxation.

HON. MR. DesBRISAY: Yes, that includes the Atlantic Provinces Adjustment Grant.

MR. GALLAGHER: For the years in which we received it, during the period. We didn't get one in 1956, for instance.

HON. MR. DesBRISAY: This shows 1956 to 1958, but it would only be applicable to two years.

COMMISSIONER BROWN: In paragraph 21 -- and this is a small point, but I was wanting to get it as we went along, just to clarify things in my own mind -- you say prior to December 31st, 1960 the province conducted the borrowing for the New Brunswick Electric Power Commission. Presumably it is still done under your direction, isn't it?

HON. MR. DesBRISAY: We have control of it,

MR. GALLAGHER: You are referring to the table at the back?

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COMMISSIONER BROWN: In paragraph 21 -- and this is a small point but I was wanting to get it as we went along, just to clarify things in my mind -- you say under 1. December 31st, 1951, the province conducted the business for ... and Electric Power Commission. Presumably it is still done under ...

yes, but they have a fiscal agent who develops the programme for them and it is submitted to the government for final approval because we are the guarantor, but, in effect, they do all the development work in arranging the borrowing.

COMMISSIONER BROWN: I wonder if you could give us a bit of a picture of just where you consider the problems lie in your provincial borrowing? You make mention of the fact the province is not as well known as other provinces.

HON. MR. DesBRISAY: Well, for a number of years the province has been trying to develop the American market -- to get better known on the American market, and there has been a considerable amount of money floated on the American market. As recently as two or three years ago Mr. Gallagher and two or three other people were successful in having the Moody's rating raised equal to Ontario -- is that right?

Could I ask Mr. O'Brien to come up here, Mr. Chairman, who is the Deputy Minister of Finance?

THE CHAIRMAN: Yes.

HON. MR. DesBRISAY: In any event, we had our rating raised. We have been anxious to develop the American market further because we found sometimes when we did need money the Canadian market could not handle our total requirements, and I am speaking of both our Power Commission and the Provincial Board. This was one of the reasons why we felt a separation would be better, and the Power Commission, until the

withholding tax, have been going on the American market and we have become fairly well known by a programme developed over a period of years. We would like to feel at some future date that that market, or even at the present time, that that market would continue to be available to us. Have I answered your question?

COMMISSIONER BROWN: Yes, I think so. I was wondering to what extent you have also adopted the same sort of programme in Canada among the Canadian institutions?

HON. MR. DesBRISAY: We have, but I think we find it a little more difficult to do in Canada, with the number of provinces in the competitive markets; we find it probably a bit more difficult to do in Canada than we would find in New York.

COMMISSIONER BROWN: When you do go to the American market you mentioned something about a rule-of-thumb which you use in assessing whether it is a good thing to do or not.

HON. MR. DesBRISAY: Well, this of course depends a great deal on the national fiscal policy. We are talking at par and we would not consider anything under half a point.

COMMISSIONER BROWN: Differential?

HON. MR. DesBRISAY: Yes, talking at par -- I am talking on the basis of exchange rates remaining the way they were some months ago. Now the situation -- the same thing would apply even over a long term, and we are doing long-term stuff mainly in New York.

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[illegible]

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HON. MR. DesBRISAY: [illegible] par – I am thinking on the basis of exchange rates remaining [illegible]

[illegible]

and we are using [illegible]

Over a long term a half a point can mean a great deal to us.

COMMISSIONER LEMAN: What specifically would you like to happen to help your access to the American capital market?

HON. MR. DesBRISAY: If we had access to the American market now on an equal basis as we have in the Canadian market, we do part of our financing in the United States without interrupting the Canadian market whatsoever for our municipal issues, and we would not be interfering with the other provinces, and we have this withholding tax now which, in effect, practically prevents us from going to the United States.

COMMISSIONER BROWN: This only affects certain of the institutions?

HON. MR. DesBRISAY: Mainly -- most of the people we deal with.

COMMISSIONER BROWN: That would be the pension funds and the savings groups; it would not affect the insurance group?

HON. MR. DesBRISAY: That is right.

COMMISSIONER BROWN: You do give us some figures about the proportion of your total spending and capital programmes that you are now covering by borrowing, but you don't break down the programmes as between your current spending programmes and your capital programmes: Is the implication that a greater proportion of your capital programmes are now covered by borrowing, or are your programmes

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growing? You don't give us that picture and I was wondering if you could.

HON. MR. DesBRISAY: Our percentage of capital programmes for borrowing is growing all the time.

COMMISSIONER BROWN: What is that percentage?

HON. MR. DesBRISAY: We don't have the percentage. We could give you an average percentage of the growth in the past number of years.

COMMISSIONER BROWN: You are borrowing for half your capital programmes?

HON. MR. DesBRISAY: Oh, more than that now. We are probably around 60 per cent at the moment, but we have been below that up until recent[illegible] years.

COMMISSIONER BROWN: How does your borrowing compare on a per capita basis and also in relation to the personal income per capita with other provinces? Can you give us those figures? Most provinces know what their per capita net debt is. Some provinces claim they haven't got any at all.

MR. GALLAGHER: There are statistics available which indicate both the net and gross debt on a per capita basis. We have experienced some difficulty in the definitions involved, so that in order to compare our net debt to the capital of the other provinces, the only real source of the data would be the Dominion Bureau of Statistics, and an examination of those will indicate our per capita debt position would be among the highest in Canada --

not the highest: There is at least one province higher than ours. But this is rather a difficult type of comparison to make because of the differences in concepts as to what constitutes net debt -- what assets you apply against your gross debt.

COMMISSIONER BROWN: I know we can get the figures from the Dominion Bureau of Statistics, but I was rather anxious to get them into this same context.

MR. GALLAGHER: No, I don't have the publication with me, or the tables which we have used. We could certainly provide them to you.

COMMISSIONER BROWN: I was wondering if I could swing from your borrowing to municipal borrowing. I notice that you say that 90 per cent of your municipal issues are sold in New Brunswick. I suspect this is a very high proportion for provinces other than Ontario and Quebec where the institutions are centred. Certainly, I know it would be a very high percentage for a province such as British Columbia, and I wondered if you had considered encouraging the municipalities to go after the institution market, or is it because they can get a better price for their bonds locally?

MR. O'BRIEN: They can get a better price locally.

COMMISSIONER BROWN: So the institution field is not one that has yet been fallen back on?

MR. O'BRIEN: It would cost more.

COMMISSIONER BROWN: But it is there -- that

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MR. O'BRIEN: They can get a better price locally.

COMMISSIONER BROWN: So the institution field is not one that has yet been tallied back out.

MR. O'BRIEN: It would cost more.

COMMISSIONER BROWN:

is my point.

MR. O'BRIEN: It is there, but it would cost the municipalities a half to three-quarters of one per cent more. There seems to be no demand for our municipalities in the Upper Canada market due to the fact the yield is lower than our bonds down here.

COMMISSIONER BROWN: That is the point I am trying to get at, because there is no real point about your financing a capital issue.

MR. O'BRIEN: There would be if the provincial government stepped into the picture.

COMMISSIONER BROWN: You mentioned generally the provincial government sinking fund moving into the municipal bond market: Do they do this on all issues or just on guarantees?

MR. O'BRIEN: Every issue.

COMMISSIONER BROWN: To what extent? I did not catch that last phrase.

MR. O'BRIEN: We buy at least 5 per cent of every issue that comes out and in some cases as high as 20 per cent. I all depends on the marketability of these bonds.

COMMISSIONER BROWN: What sort of criteria are used?

MR. O'BRIEN: Well, there is no set criteria. If, for instance, the City of Moncton made an issue and it was $1 million and it was selling very slowly and if some of the other municipalities we knew were going to come on the market we would try to pick up

the slack in which case it could amount to about 20 per cent. We do not let anything over-hang the market.

COMMISSIONER BROWN: In terms of your own provincial bonds and your own provincial sinking funds and other investment funds to what extent does this taking up of municipal bonds affect the availability of those funds for assisting your own provincial issues?

MR. O'BRIEN: Well, there would be that much less that we would have to spend on our own issues if we had to finance the municipalities.

COMMISSIONER BROWN: I realize it would be less but how much are these municipal issues relative to your provincial issues in any one year -- half of the total of the provincial issues?

MR. O'BRIEN: No, they would not run half, sir.

COMMISSIONER BROWN: This is the total of the municipal issues I am talking about.

MR. O'BRIEN: I would say they run about 15 or 20 per cent.

MR. GALLAGHER: We were interested in trying to find out some of this for ourselves, that is, the total size of municipal borrowing. Quite frankly we have been unable to do so with any kind of statistical precision. Obviously, our estimate of 90 per cent of municipal bonds being absorbed within the province is only an estimate and is not an estimate that we can support with a fine precise calculation.

They just are not available, the kind of statistics of this type as far as New Brunswick is concerned. So we formed these estimates which are based on some rather detailed discussions with people who are pretty intimately involved in this particular form of financing. This is a sort of concensus rather than an estimate.

COMMISSIONER BROWN: But you must have figures on what your total issues are in the year in comparison with municipal issues. The Department of Municipal Affairs would have that information.

MR. O'BRIEN: We can obtain that.

COMMISSIONER BROWN: The point I am trying to get at is I get rather a picture that as far as your municipalities are concerned they have no problem in borrowing money and they have a reluctance to go to the central market because of an increased rate there but they could go there because the market has not been tapped yet if it were not for this reluctance to pay higher rates.

HON. MR. DesBRISAY: We have made some attempts at investigation in going to the outside markets as recently as during the past year. Some of our people made a visit to some 50 odd people in the central part of Canada who buy municipal issues.

THE CHAIRMAN: Up until then it perhaps was not necessary to go further; you were getting along very well with the local sources of supply?

HON. MR. DesBRISAY: Yes.

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HON. MR. DesBRISAY: Yes.

THE CHAIRMAN: But now I suppose your capital

expenditures are increasing at a greater rate than formerly?

HON. MR. DesBRISAY: That is right.

COMMISSIONER LEMAN: Mr. DesBrisay in paragraph 18 in the last sentence you say:

"The Province has, as well, dealt privately with two and sometimes three syndicates on a highly competitive basis."

Were these syndicates comprising some national houses and houses dealing across the country?

HON. MR. DesBRISAY: Oh yes, all these syndicates and our borrowing that has been done are with national concerns and the syndicates are comprised, some 90 per cent of the people are national in scope.

COMMISSIONER LEMAN: What are their views as to the limitations for New Brunswick in the central market?

HON. MR. DesBRISAY: They feel that there is a good demand and we are being quite successful with our flotations and we have done some promotion, shall I say, on New Brunswick bonds in the central market. We have been very fortunate which I think is obvious by the borrowing we have done in the past number of years. We have not been out of line.

COMMISSIONER LEMAN: I got from what you have told us already that in the municipal field you feel the yield for municipal bonds sold in the New Brunswick market is generally lower than if you had to market these municipal bonds in the central market?

MR. O'BRIEN: That is right, less cost to the municipality.

COMMISSIONER LEMAN: But for provincial bonds, would you say it was the other way around, that you can get a lower yield if you had access to the central market than if you had to sell all your bonds in the New Brunswick area?

HON. MR. DesBRISAY: Oh yes, we could not sell our bonds in New Brunswick solely -- in New Brunswick or for that matter in the Atlantic provinces. We would have to depend on the national and central markets.

COMMISSIONER LEMAN: That is why I think Mr. Brown was trying to get the proportion of what are your total provincial and municipal borrowings. It seemed a little extraordinary that, as you said, you thought the provincial borrowings would represent only one-quarter or one-fifth of the municipal borrowings in one year?

MR. O'BRIEN: It varies from year to year.

HON. MR. DesBRISAY: Somebody is getting those figures for us, the percentage and the relationship between provincial and municipal borrowings.

COMMISSIONER MacKEEN: May I interject here with reference to municipal borrowings? Have your municipal securities any particular advantages in the province in terms of the definition of trustee securities etc.?

MR. O'BRIEN: They are all trustee investments, sir.

MR. [illegible]: That is right. [illegible]

[illegible]

COMMISSIONER LEMAN: But for provincial bonds

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COMMISSIONER MacKEEN: Was this one of the things that enables them to sell at a better price relevant to the national markets whereas your provincial securities, I take it, sell on a national basis?

MR. O'BRIEN: The fact that a person investing his money is more familiar with the bonds that they are buying -- they do not like to buy, I imagine they would not want to buy something they did not know anything about.

HON. MR. DesBRISAY: Perhaps I might add we suspect it may be somewhat of a tradition.

MR. O'BRIEN: I think it is traditional in the Atlantic provinces when it comes down to that.

COMMISSIONER BROWN: You guarantee school district bonds, do you?

MR. O'BRIEN: Some.

COMMISSIONER BROWN: Just some?

MR. O'BRIEN: Yes.

COMMISSIONER BROWN: And some municipal bonds?

MR. O'BRIEN: There are no municipal bond guarantees, sir.

COMMISSIONER BROWN: What is the criteria for guaranteeing a school district issue?

MR. O'BRIEN: I believe it is the consolidated districts ---

HON. MR. DesBRISAY: It is consolidated for specific school purposes.

MR. O'BRIEN: Having a bunch of school districts together and consolidating them.

COMMISSIONER BROWN: But some school districts are not guaranteed?

MR. O'BRIEN: That is right, sir.

COMMISSIONER BROWN: How about industrial corporations, do you guarantee some of those?

HON. MR. DesBRISAY: Yes.

COMMISSIONER BROWN: What is the criteria there?

HON. MR. DesBRISAY: Primarily for economic development. If the bond market is not satisfactory to the potential borrower and he can borrow at an obviously lower rate of interest by provincial guarantee, the government has on occasion guaranteed corporate bonds with a view to economic development within specific areas of the province.

COMMISSIONER BROWN: Have you found that this affects your own credit rating at all?

MR. O'BRIEN: Not as a rule.

HON. MR. DesBRISAY: I think it can be carried to extremes. We do not do it to any great extent. On the over-all issues it is very small percentage-wise. While there are a number of them they are relatively small in size.

COMMISSIONER BROWN: I gather you have not gone into the parity bond market yet?

HON. MR. DesBRISAY: No.

COMMISSIONER BROWN: What are your thoughts on this?

HON. MR. DesBRISAY: I will ask Mr. Gallagher to answer that.

districts are not guaranteed?

MR. O'BRIEN: That is right, sir.

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HON. MR. DesBRISAY: I will ask Mr. Gallagher to answer that.

MR. GALLAGHER: I believe Mr. O'Brien will agree that we have essentially a couple of points on this type of financing that we would like to see a bit clearer before we move into the field. We have been watching very carefully the experience of a couple of the western provinces that have been using this type of financing. They have been getting some rather interesting results especially in terms of the amount of money they have been able to get out of this market and we are a bit concerned about interest rate redemptions. These might vary from year to year and we feel our policy to meet such redemptions might be strained. Until we have some clearer picture this is one of the major factors in keeping us out of this type of financing.

The other factor is, to our mind, related to the effect this type of financing by the province would have on local municipalities and if it would make it more difficult for the municipalities to finance. I think essentially these are the two important considerations.

The Minister just mentioned the federal government have developed the policy of staying out of the long-term market and leaving the short-term market to the provinces and I think we are possibly inclined to respect this wish.

COMMISSIONER BROWN: You mean to leave the long-term to the province?

MR. O'BRIEN: Yes, they are taking the short.

COMMISSIONER BROWN: You said the short.

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COMMISSIONER [illegible]: You mean to leave the long-term to the provinces?

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MR. GALLAGHER: I am sorry, we are inclined to stay out of the short-term market and respect this wish on their part.

The ratio of the municipal annual borrowings to both provincial and power commission added together would be in the order of about one to three. In the total in recent years this would be around $10 million to $12 million for the municipalities and approximately something around $30 million for the province and the power commission.

COMMISSIONER LEMAN: Did you ever talk with any federal authorities about whether it would bother the federal government at all if you went into the short-term market? You seem to have the impression that you have something fairly holy to respect and it is a question of them being in the short and you in the long?

HON. MR. DesBRISAY: That is one of the minor reasons we have not gone into it.

MR. GALLAGHER: It is third in order but I find the federal government are in a position to enforce the holiness of their wishes.

COMMISSIONER LEMAN: But do you think they would mind at all? Did they ever express this thought to you?

MR. GALLAGHER: I have had this thought expressed by officials, possibly officials expressing in an unofficial capacity but this seems to be the feeling, that they have, that the federal government stays out of the long-term market and that the provinces

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MR. GALLAGHER: It is hard to see ... I find the federal government now in a position to enforce the holiness of their wishes.

COMMISSIONER LEMAN: But do you think they would mind at all? Did they ever express this thought to you?

MR. GALLAGHER: I have had this thought expressed by officials possibly ... officials expressing in an unofficial capacity ... the feeling, that they have, that the federal government

should in some way reciprocate. I do not think they would be disturbed if we borrowed $5 million or $6 million on a short-term. It should not bother them particularly but if Ontario established this policy it might well affect them.

COMMISSIONER LEMAN: Is there something of a parallel here? You see, if the federal government chooses to exploit one market and are having the provinces exploit another market which I gather is in some way the same vis-a-vis your municipalities, you are trying to stay out of their markets if they have a good market and you would try not to spoil that market for them by trying to get your money elsewhere if possible, is that it?

MR. GALLAGHER: I think that would be a fair statement.

THE HON. MR. DesBRISAY: To some extent.

COMMISSIONER GIBSON: Do Canada Savings Bonds cut into the market for municipal securities in New Brunswick? I am thinking of your desire to not affect this market by trying to sell parity bonds there. Have the Canada Savings Bonds cut into this market?

MR. O'BRIEN: They have, yes.

MR. GALLAGHER: This is obviously one of the big incentives for the province to get into the field to see if it would not be possible to divert some of the flow that now goes into federal savings bonds into our own.

COMMISSIONER MacKEEN: Turning to Appendix A,

page 52, where you go into the New Brunswick Electric Power Commission quite thoroughly, from that you have issued money to the extent of $65 million which was turned over to them. Then, there is the Swiss franc loan which I presume would produce about $5 million?

MR. GALLAGHER: $4.43 million.

COMMISSIONER MacKEEN: And $40 million of their own bonds which has been the recent policy or a total of approximately $109 million. Have you taken advantage of the federal government's offer to make advances for electric power production? What percentage would that be of the total shown here, the $40 million?

MR. GALLAGHER: I am not certain of the precise percentage it would be to date but rather a small proportion because all we have financed under the federal scheme are these transmission lines primarily but this percentage will grow as we extend. We will be financing our Grand Lake thermal plant.

COMMISSIONER MacKEEN: That will be thermal rather than hydro?

MR. GALLAGHER: It will be coal using thermal.

COMMISSIONER MacKEEN: The Saint John terminal, you did not finance any of that federally?

MR. GALLAGHER: No, we were not able to do this. This was not possible once the decision was made to instal oil burning.

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COMMISSIONER MacKEEN: It is only for coal, that is right.

MR. GALLAGHER: Right.

COMMISSIONER MacKEEN: Was the Swiss loan on a more favourable basis than you could have got it in the United States or Canada?

MR. O'BRIEN: At the time the loan was made, yes sir.

COMMISSIONER MacKEEN: I was just a little curious about that. You got an appreciably better rate?

MR. O'BRIEN: About one-half of one per cent.

COMMISSIONER MacKEEN: When you guarantee a school issue does that go out on approximately the same rate as the province's own bonds, a quarter or half a point higher rate or something of that order? I notice a lot of items there.

MR. O'BRIEN: About a quarter of one per cent.

COMMISSIONER MacKEEN: Difference?

MR. O'BRIEN: Yes.

COMMISSIONER MacKEEN: You do not do that in the case of every school?

MR. O'BRIEN: No.

COMMISSIONER MacKEEN: Just where the school is in difficulties or finds it difficult to finance or how do you differentiate?

MR. O'BRIEN: There are just certain school districts that require it and that it is applicable to.

COMMISSIONER MacKEEN: Well, they probably

get a better rate on that basis than they would if they borrowed independently, wouldn't they?

MR. O'BRIEN: Oh yes. It is where there is a consolidation of school districts and in the majority of cases it is poor districts going in with good districts and working out ---

COMMISSIONER MacKEEN: Something just under $10 million?

MR. O'BRIEN: Oh yes.

COMMISSIONER BROWN: I gather that high interest rates have not stopped your borrowing? It means you have had to pay excessively in interest?

HON. MR. DesBRISAY: Yes, our timing has been controlled by interest rates.

COMMISSIONER MacKEEN: Have you delayed projects because of high interest rates?

HON. MR. DesBRISAY: There are certain areas, yes, where we have retrenched because of high interest rates, or postponed the programme. But, the answer to the first question is that we are using considerably chartered banks as an overdraft position, and we use this continually.

COMMISSIONER BROWN: In the hope of financing ---

HON. MR. DesBRISAY: In the hope of lower interest rates.

COMMISSIONER BROWN: Have you at any time changed from capital intensive type of development for your electric power to a less capital intensive type because of high interest rates?

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HON. MR. DesBRISAY: Not during my time.

COMMISSIONER LEMAN: How high is "excessive"?

HON. MR. DesBRISAY: That is a good question.

THE CHAIRMAN: I am just noticing, Mr. Treasurer, at paragraph 30 in your brief you say -- and this is just the last part of the paragraph:

> "It is very easy to conclude that funds are always available if you are willing to pay the cost; however, in the period following the Conversion Loan operation the province, after consultation with investment people, formed the judgment that the Canadian market would rather not meet its needs. We were not any happier, because we knew that an issue at 8 or 10 per cent would be acceptable."

I was wondering what comments you might have to make about that. Could you expand on that a little bit? 8 or 10 per cent -- what would that relate to?

HON. MR. DesBRISAY: At that time it was felt that an issue could be placed on the market at a very high interest rate.

THE CHAIRMAN: Yes.

HON. MR. DesBRISAY: And I think the figure of 8 or 10 per cent is used to give an indication.

THE CHAIRMAN: But would you seriously consider that under the circumstances?

HON. MR. DesBRISAY: No, we would not.

THE CHAIRMAN: I wasn't sure what the implications were.

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COMMISSIONER LEMAN: How high is 'excessive"?

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COMMISSIONER MACKINTOSH: I think the sentence would be clearer if it read, "The fact we could issue at 8 or 10 per cent did not make us any happier."

THE CHAIRMAN: Yes, I thought it would be something of that kind, because I didn't imagine you were seriously considering borrowing at that rate.

COMMISSIONER LEMAN: You are referring to a period of what there -- six months?

HON. MR. DesBRISAY: Six or eight months.

COMMISSIONER LEMAN: This was a rather unusual event: The Conversion Loan period has not been typical, has it? In other words, New Brunswick was not alone in deciding whether it was better to stay out at that time?

MR. O'BRIEN: No, no, we were not.

COMMISSIONER GIBSON: Have you ever had circumstances in modern times like that particular period where you could only borrow money at what you regard as prohibitive rates?

MR. O'BRIEN: Yes.

COMMISSIONER GIBSON: In other circumstances than that?

HON. MR. DesBRISAY: We had some recently.

COMMISSIONER GIBSON: That would be the period in 1959?

HON. MR. DesBRISAY: Yes.

COMMISSIONER GIBSON: Was that comparable to the period of conversion in the difficulty of

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HON. MR. DesBRISAY: We had them recently.

COMMISSIONER GIBSON: That would be the period in 1959?

HON. MR. DesBRISAY: Yes.

[illegible]

[illegible] of confusion in the difficulty of

borrowing?

MR. O'BRIEN: Yes.

COMMISSIONER GIBSON: How long did that period last?

MR. O'BRIEN: I would say very nearly a year.

COMMISSIONER GIBSON: So you have had two periods in the postwar period at least where you have found it extremely difficult to borrow on the Canadian market?

MR. O'BRIEN: Very, very hard, yes.

COMMISSIONER GIBSON: During these periods have your pgorammes been cut back or deferred substantially -- your provincial programmes?

MR. O'BRIEN: They were cut back.

COMMISSIONER GIBSON: Cut back or deferred, or both?

MR. O'BRIEN: Both.

COMMISSIONER GIBSON: What would be the main phenomenon that this great difficulty of getting money would cause -- a deferment or cutting certain things right out?

MR. O'BRIEN: They would defer them with the anticipation of the interest rate coming down.

COMMISSIONER GIBSON: But if you defer this kind of expenditure do you ever catch up, or does it just mean everything is moved back?

HON. MR. DesBRISAY: It depends on the programme being deferred. Certain programmes can be picked up and others would probably take many years

borrowing?

[illegible]

COMMISSIONER GIBSON: How long did that [illegible]?

MR. O'BRIEN: I would say very nearly [illegible] [illegible].

COMMISSIONER GIBSON: So you have had two periods in the postwar period at least where you have found it extremely difficult to borrow on the [illegible]?

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to catch up, and never catch up probably. But on the other hand, the ones, I believe, that were deferred could be picked up.

COMMISSIONER GIBSON: What you are suggesting here is that you have had two particularly difficult financial periods when tight money has had an effect to some extent on spending programmes. Have there been any other periods when those fairly high interest rates, rather than difficulty in raising money, have checked capital financing programmes?

MR. O'BRIEN: At the present time we would hesitate about going on the market. One does not know. There is no stabilization in the interest rates on bonds now.

HON. MR. DesBRISAY: We have experienced it to a minor degree over the last couple of years -- sporadic periods.

COMMISSIONER GIBSON: Would you think your experiences any different from that of most other provinces, let us say?

HON. MR. DesBRISAY: Probably a little more extreme, yes. By looking at bond sales and the prices, ours has been a little more extreme at this end of the country.

COMMISSIONER GIBSON: A little more variation in market conditions?

HON. MR. DesBRISAY: Yes.

COMMISSIONER GIBSON: And this is basically why you put so much emphasis in your brief on the importance of the American market, so you have some

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COMMISSIONER GIBSON: A little more [illegible] in market conditions?

HON. MR. DesBRISAY: Yes.

COMMISSIONER GIBSON: And this is partly why you put so much emphasis in your brief on the [illegible]

kind of safety valve?

HON. MR. DesBRISAY: That is correct.

COMMISSIONER LEMAN: Is it possible to get from you either some precise statistics or just your opinion, maybe, as to what would happen to the municipalities during those same periods? You say they are exploiting mostly the New Brunswick market, and it is fairly isolated, and they do get lower yields than they would get elsewhere. What heppened to them during these periods when money was tight?

HON. MR. DesBRISAY: In the most recent periods, I was referring to the ones as major as the ones previously referred to. The same thing is going to happen in New Brunswick. I beleive it is correct to say there have been cases where municipalities have deferred programmes and deferred going into the market. We don't know the extent of this. This is an opinion.

COMMISSIONER LEMAN: But you see, what I would like to elicit from you is this: You seem to argue here in your brief for some insulation from restrictive monetary policies applied nationally, but if New Brunswick as a province wants to borrow on the national capital, it is impossible to insulate you from that, isn't it? It may be possible to try and insulate you from such restrictive monetary measures if New Brunswick itself felt it could isolate itself. Even in periods of high interest rates, say in the central provinces, you can still have reasonably lower interest rates in New Brunswick, but not if you want to exploit the

national capital market.

MR. GALLAGHER: I think there would be some difference between insulation from the effects of a restrictive monetary policy and insulation from the policy itself. I think what we had in mind, in the government submission, was that as a short term, as an interim measure, because of the rather extreme impact of national policies and credit restraints, that it would seem appropriate to develop some form of selective instruments which would enable, say, the province to continue to finance its requirements. This could be done in a number of ways, obviously, but what we had in mind, for one case, is that the federal government would open up a number of federal government accounts to the provinces and municipalities who were experiencing restraint. This would be a form of monetary policy, but would be exercised through the government of Canada rather than through the bank.

COMMISSIONER GIBSON: On this question of the effect of interest rates and to what degree they cause deferment of spending programmes, could you give us any estimate of how much the provincial government's spending programmes -- what proportion of the provincial government's capital programmes were deferred in the two periods of difficult financing to which you particularly refer? Would it be one-quarter of the programme or one-third?

HON. MR. DesBRISAY: I must point out I only came into this office in 1960, and I think the two

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HON. MR. DesBRISAY: I must point out I only came into this office in 19[illegible]0, and I think the two

periods we are talking about are before that.

MR. O'BRIEN: They had to neglect the secondary roads, because we were giving assistance for the Trans Canada Highway. Naturally, they were spending the money on that, and the Trans Canada Highway -- because they were only paying 25, and in some cases only 10 per cent -- and it neglected their secondary roads, and that cost is coming back onto us now.

COMMISSIONER GIBSON: So, the tendency was to go ahead with things where there was a substantial outside sharing?

MR. O'BRIEN: Substantial outside sharing.

COMMISSIONER GIBSON: Yes, and cut back the things you had to pay entirely yourselves.

MR. O'BRIEN: Yes.

HON. MR. DesBRISAY: On some portions of the Trans Canada Highway there was 90 per cent federal government participation.

THE CHAIRMAN: Were you able to step up your Trans Canada programme at that time?

MR. O'BRIEN: Yes, we were.

THE CHAIRMAN: You stepped up your Trans Canada programme and cut down the other?

MR. O'BRIEN: Cut down on the secondary -- what we call secondary permanent roads.

THE CHAIRMAN: So your over-all programme was not affected too much.

MR. O'BRIEN: They neglected it and now it is going to cost a lot of money to put it back into

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shape again.

THE CHAIRMAN: But you had the benefit of your Trans Canada programme in the meantime.

HON. MR. DesBRISAY: From the employment point of view, yes, but from an economic development point of view we are now reaching into some industrial areas and we have to provide roads other than under the roads to resources programme.

THE CHAIRMAN: And the expense falls entirely upon the province?

HON. MR. DesBRISAY: 100 per cent.

COMMISSIONER GIBSON: How about the effect on the municipalities? You implied, Mr. O'Brien, the municipalities had to cut back quite a little when money was tight, and would this involve a sizeable part of their capital programmes?

MR. O'BRIEN: That I couldn't answer, but I have every reason to believe they did, and now they take advantage of this winter works programme.

COMMISSIONER GIBSON: I get the impression in reading your brief that you believe, although you don't develop it very far, that the municipal capital expenditures are more sensitive to interest changes than the provincial expenditures. Why is this ? Is it because they are smaller, because the taxpayers are more sensitive to changes in rates? Would you elaborate on this a little bit?

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MR. GALLAGHER: First of all, this was a proper impression which you developed, that the

municipalities are more sensitive. This goes back to a number of cases during the latest period of restriction. There are some municipalities who were unable in their view to obtain the kind of money they wanted for a particular programme -- to instal a sewage system or something of this nature. In some cases they decided, rather than proceed, they would defer the programme. At the municipal level, particularly in the small municipalities, rather a substantial increase in interest charges can affect the tax rate almost immediately, and some municipal councils are reluctant to have this happen.

COMMISSIONER GIBSON: You think there is real response when this happens?

MR. GALLAGHER: I feel this is based on the experience of some of the municipalities a couple of years back. Again, there are other factors: The market for their financing is extremely narrow. It is pretty much limited to the province, so they don't have the benefit ofthe broader market.

COMMISSIONER GIBSON: This may not be a disadvantage in a period of real restraint, because I get the impression the local market is perhaps less variable than the national market -- indeed, from some of the things you have said.

MR. GALLAGHER: As we have indicated, that is a choice in terms of how they invest their money. A lot of the small investors in New Brunswick would invest on the basis of reasons other than economic

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reasons. There would be some tradition involved. The degree to which you can pursue this line of thinking in periods of very severe credit restraint -- I would not have a conclusion on that.

HON. MR. DesBRISAY: Mr. Chairman, if you would like to pursue this municipal financing further, I would ask the Deputy Minister of Municipal Affairs to come.

THE CHAIRMAN: It would be helpful. In a few moments we will have a recess, and after that he may be available.

HON. MR. DesBRISAY: Yes.

COMMISSIONER BROWN: Could I ask a slightly hypothetical question: In your brief you ask for closer co-operation between the dominion and provincial authorities on this estimate of future monetary policy and so forth. What is your reaction going to be if as a result of such consultation you find out that the estimate of the central authorities is that monetary restraint is going to have to be practiced and interest rates are going to go up? What are you going to do when you are told this?

HON. MR. DesBRISAY: This would be inevitable. If it is inevitable there is not much we could do. I think for the first time last year at a premiers' conference, we now have some co-ordination amongst the provinces: The premier is responsible to notify the others what their borrowing is going to be during the year and their approximate timing. We have it inter-provincially now, and we find it very effective.

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We do know now when the other provinces are going on to the market, and this is very important, and this was developed as the result of a series of premiers' conferences. We think something along these lines may be developed on a federal basis. We don't know when the monetary policy of the federal government -- when they are going to go out on the market. We have no indication. We might clash sometimes when there may be no need of it, and it could very well be avoided with advance information.

COMMISSIONER BROWN: In this provincial co-operation that is now going on, do you find this has any tendency for people to try to get ahead of other people?

HON. MR. DesBRISAY: It has not worked that way at all. There has been a great spirit of co-operation, because everybody realizes they are in the same boat and we must help, and we feel we would be very foolish to do that. We know a certain province is going on, and we would try and stay off the market for that period of time, and we feel this works both ways.

COMMISSIONER MacKEEN: At one period of very tight money prior to 1932-1933, the provincial governments and the municipalities -- certainly the larger ones -- all had requirements. This was before the Bank of Canada was formed, of course, and the Department of Finance set up a committee known as the Orderly Market Board, and the function of that board was to canvass all the provinces finding out

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what their requirements would be over a 12 month period, and then bring out issues in rotation as the market absorbed them. Is that something of the idea you have in mind?

HON. MR. DesBRISAY: Very much so.

COMMISSIONER MacKEEN: It worked for about two years and then due to the fact that it did not comprise all the investment houses, the ones that were on the outside complained they were not getting their proper share and it broke up, that the need of it was more or less past and some of the would-be borrowers thought they were being charged too high rates by this one body that governed the marketing of bonds. So that there are difficulties attached to it but it might be worthy of consideration. I think that is probably what you are thinking of in your brief?

HON. MR. DesBRISAY: Yes.

THE CHAIRMAN: We will now adjourn for about 10 minutes.

(At this point a short recess was taken).

--- Upon resuming.

HON. MR. DesBRISAY: Mr. Chairman and gentlemen, Mr. Allen, the Deputy Minister of Municipal Affairs, is with us if you would like to have him answer some questions.

COMMISSIONER GIBSON: Perhaps, Mr. Chairman, I might pick this up. I was asking Mr. DesBrisay and Mr. O'Brien about how far tight money or difficult credit conditions affected the capital spending

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and Mr. O'Brien about how far tight money or difficult credit conditions affected the capital borrowing

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MR. ALLEN: It is very difficult to give an answer to what extent. I think most of us are quite convinced in our own minds that what has been said is very, very true; it does adversely affect the municipal investments, more so likely than the province. We regret that we do not have accurate statistics to back up our thinking on it.

Right now, of course, the bond market being very good, there does not seem to be any great disadvantage at all but a year or a year and a half ago some of the municipalities were not borrowing when they perhaps should have been borrowing to put in very badly needed services such as water and sewers and these things have been delayed for a couple of years to the disadvantage of the municipalities.

COMMISSIONER GIBSON: And you would say the tight conditions in 1958 and 1959 led to delays in capital needs for as much as a couple of years?

MR. ALLEN: I think it has without doubt.

COMMISSIONER GIBSON: Would this affect a sizeable portion of the municipal works that were

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COMMISSIONER GIBSON: Would this affect a sizeable portion of the municipal works that were

planned at that time?

MR. ALLEN: It has affected mostly our cities and to a lesser extent perhaps our towns. I do not think it has had any great adverse effect upon the school boards, particularly, but it certainly has for straight municipal services in our cities and to a lesser extent in our towns.

COMMISSIONER GIBSON: Would you ever catch up with that or would the whole programme fall back a year or two?

MR. ALLEN: I think there is a very strong tendency to fall back to some extent.

COMMISSIONER GIBSON: So the effect of tight credit conditions is actually to permanently reduce spending; in other words, you do not make that up but you carry on?

MR. ALLEN: It is bound to be affected permanently.

COMMISSIONER GIBSON: We have been talking about the extremely difficult credit conditions, the tight period in 1959 and the period after the Conversion Loan. What about the present situation, for example? Is the present structure of interest rates to any extent impeding municipal improvements?

MR. ALLEN: No, I would say definitely not at the present time, definitely not. Some of the smaller municipalities are using this year to catch up but I still think there is bound to be a period of delay regardless because our municipalities are very conscious of spending money. It all goes back

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to the taxpayer.

COMMISSIONER GIBSON: When interest rates are high does this produce substantial resistance on the part of the local taxpayers; in other words, how does this business of higher interest rates work in cutting back programmes?

MR. ALLEN: Well, the municipalities just will not borrow.

COMMISSIONER GIBSON: They just do not borrow. Why don't they borrow?

MR. ALLEN: Because they feel that it is costing too much. They are always hoping for a brighter day ahead when they can borrow money at better rates.

COMMISSIONER GIBSON: And do they feel it is costing too much because they do not want to present a higher tax bill to their citizens or is it just that it is costing too much?

MR. ALLEN: They feel it is costing too much but they also do not want to present a larger tax bill to the people. I noted one municipality last week who are doing their level best to put a small issue of bonds on the market and yet they are determined they are going to do their best to keep the same rate of taxation they had last year and their assessment is so low that an increase of $1,000 would put their tax rate up by about 10 cents. This they feel they cannot do.

COMMISSIONER BROWN: Who makes the decision? Is it the council who makes the decision?

MR. ALLEN: The council in the towns and

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MR. ALLEN: The council in the towns and

cities make the decision and the town and city school boards, if it is a school board and in the rural areas the authorization must be voted by the ratepayers.

COMMISSIONER BROWN: My question really was is it council that makes the decision or is it the ratepayers by turning down the by-law?

MR. ALLEN: In the rural areas of the school boards if the ratepayers turn down the authorization the matter ends then and there. In our town and city school or council the matter is not even referred to the ratepayers; the decision is entirely for the council.

COMMISSIONER BROWN: So it is a question of the councils making a decision that the interest rates are too high to put the by-laws rather than of putting by-laws and having them turned down by the ratepayers because the ratepayers consider it too high.

COMMISSIONER MACKINTOSH: The ratepayer has redress by voting out the council.

MR. ALLEN: That is so.

THE CHAIRMAN: If the interest rate is a little higher than normal it would add a slight increase to the taxes but a large increase in the taxes is coming from the project itself, large capital charges as well as the interest rate.

MR. ALLEN: Oh yes, there is no doubt about that.

THE CHAIRMAN: If the tight money causes the increase in the interest rate of one per cent, we will say, that would add something to the burden but

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[illegible] was it council that makes the decision or is it the ratepayers by turning down the by-law?

MR. ALLEN: In the rural areas of the school boards if the ratepayers turn down the authorization the matter ends then and there. In our town and city school or council the matter is not even referred to the ratepayers; the decision is entirely for the council.

COMMISSIONER BROWN: So it is a question of the councils making a decision that the interest rates are too high to put the by-laws rather than of putting by-laws and having them turned down by the ratepayers because the ratepayers consider it too high.

COMMISSIONER MACKINTOSH: The ratepayer has redress by voting out the council.

[illegible]

THE CHAIRMAN: If the interest rate is a little higher than normal it would add a slight increase to the taxes but a large increase in the taxes is coming from the project itself, large capital charges as well as the interest rate.

MR. ALLEN: Oh yes, there is no doubt about that.

THE CHAIRMAN: If the tight money caused the increase in the interest rate of one per cent, we will say, that would add something to the burden but

the big burden would be the rest of the interest whatever it might be, whether 4 per cent or whatever it might be?

MR. ALLEN: That is right.

THE CHAIRMAN: Plus the charges for the capital depending on how they are managed.

COMMISSIONER MACKINTOSH: Has there been any tendency to compensate by extending the term of the borrowing in a bid to reduce the annual charges?

MR. ALLEN: Yes, that is so. There is a tendency now for the municipalities to try and amortize over a 40-year period which they can do much better than say on 20 or 25 years.

COMMISSIONER BROWN: Do you have regulations or statutes that hold them down to 20 or 25?

MR. ALLEN: In general our municipalities get their authority to borrow by a special act of the legislature and the term is spelled out in the special act, not to exceed a certain number of years. The last few years the tendency has been to go as high as 40 years but we try as much as possible to keep it down to 30 years, even 20.

COMMISSIONER BROWN: Is your municipal borrowing confined to serial issues or are they permitted to go into sinking fund in issues?

MR. ALLEN: It is practically all serial issues now.

COMMISSIONER BROWN: Has this been by statute?

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COMMISSIONER BROWN: Has this been of [illegible]ite?

MR. ALLEN: It could be done by provincial act but in the last few years it has practically all been serial bonds.

COMMISSIONER BROWN: Is this by direction or choice?

MR. ALLEN: Largely by choice.

COMMISSIONER BROWN: Do you have equalization of assessment regulations?

MR. ALLEN: No, not as yet. We hope to in two years' time.

COMMISSIONER MacKEEN: Does your department authorize each borrowing as well as the special act of the legislature?

MR. ALLEN: Within the last two years through the office of the Municipal Bond Co-ordinator we have been trying to time the issues. That has really been our activity.

HON. MR. DesBRISAY: This might be pointed out. I do not think it has been yet. We do have a Municipal Bond Co-ordinator working on the same basis with our municipalities as I explained we work on a national basis so that there is no overlapping.

COMMISSIONER BROWN: Are your municipal issues done by public tender, bidding?

MR. O'BRIEN: Yes, they all are.

MR. ALLEN: Oh yes, all are.

THE CHAIRMAN: Have you tried any other method? Have you tried using a syndicate?

MR. ALLEN: Well, I am not familiar with this. I understand quite a bit is done through

syndicates, the larger issues.

THE CHAIRMAN: But it is a bid system?

HON. MR. DesBRISAY: Different syndicates, I presume, would bid on it.

COMMISSIONER MACKINTOSH: It is not a single syndicate at a negotiated price?

HON. MR. DesBRISAY: No, a group get together. They do that quite a bit.

COMMISSIONER MACKINTOSH: But they take it by public tender?

HON. MR. DesBRISAY: Yes.

THE CHAIRMAN: By the way, your accounting, do you have a capital account separate from the current account?

MR. ALLEN: Yes.

THE CHAIRMAN: And your revenues are sufficient or more than sufficient to take care of your current expenditures?

MR. ALLEN: Oh yes.

THE CHAIRMAN: So that your borrowings are not to take care of current deficits, they are merely capital?

MR. ALLEN: Absolutely.

COMMISSIONER LEMAN: Do you allow municipalities to go to the United States market?

MR. ALLEN: There is nothing actually for us to stop them. I do not think the practice has been followed to any great extent. I think the city of Saint John has on one or two occasions.

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COMMISSIONER LEMAY: If a municipality wants

to go to the United States market and use the same formula that the province uses then you would not feel that it should be discouraged from doing so, the same formula for gauging advantage or disadvantage?

HON. MR. DesBRISAY: We would not discourage it.

COMMISSIONER LEMAN: I am a little bit puzzled by that because in your introduction to the brief, Mr. Des Brisay, you suggest in recommendation No. 3 that:

> " That a study be undertaken to determine the adequacy of Canadian capital markets to meet domestic needs, particularly with a view to determine the role which the United States market should play in municipal and provincial borrowing."

Now, I would like to get your view of this and I am very much intrigued by this thinking. Let us make some assumptions, that if such a study had been made it would be discovered that on the average the capital markets in Canada would be sufficient for all national needs, municipal, industrial and senior government levels except one or in areas where there are immense and exceptional booms in resource development of the type we have seen, such as oil development, major iron ore projects and that sort of thing. Suppose that was the result of it do you have any ideas as to where it would be wiser to channel foreign capital?

HON. MR. DesBRISAY: Where ...?

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HON. MR. DesBRISAY: Where ...?

COMMISSIONER LEMAN: Where would it be more wise to channel foreign capital used in the country if we discovered that there were only these big excess needs at times which could not reasonably be financed within the country itself?

HON. MR. DesBRISAY: I do not quite understand. You mean where, in what country?

COMMISSIONER LEMAN: No, into what areas should they be channelled?

HON. MR. DesBRISAY: Well, in the first place ...

COMMISSIONER LEMAN: In other words, would you be in favour of financing, say, oil development in Canada with Canadian capital and financing municipal borrowings with foreign capital?

HON. MR. DesBRISAY: I think the answer is what we have done here. We have done a considerable amount of our Power Commission financing in the United States. We have done some promotion on the industrial potential of New Brunswick in American markets and we are doing this consistently so that the bond buyer in the New York market today is aware of the New Brunswick Power Commission and what plans are trying to be developed there.

We have evidence to prove that because of the need on the market, because there is a demand in New York for our bonds (the demand actually exists today) we can place money there and because of this we have been able to save the province money to a considerable extent by going to the New York market.

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COMMISSIONER LEMAN: Well, what are your general thoughts, that it has no importance and if the country needs some foreign capital on the average or over a decade you feel it has no importance where that foreign capital is channelled?

HON. MR. DesBRISAY: No, personally I do not believe it makes too much difference. As long as the capital is used we would like to think it would be used here to further our economic development whether it be through the Power Commission or through a programme of road building which is necessary. I do not have any particular feeling that it should be directed into any one specific area.

MR. GALLAGHER: Would not it involve the question of whether it would be proper to have the United States citizens own our governments or, say, our oil industries?

COMMISSIONER LEMAN: We just asked you if you had any views on this.

HON. MR. DesBRISAY: I think this is probably something that the federal government could very well study -- the direction of foreign capital investment and we would be quite prepared to discuss this as to where best to channel it. There are a number of things that are of national significance in this question. They do not apply only to New Brunswick. I think it should be co-ordinated. If we finally come to a conclusion that it should be directed into specific areas I think then this probably should be adhered to as somewhat of a national

general thoughts. [illegible] [illegible]

[illegible]

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policy.

The second thing is with our Power Commission we find that there is a better market for Power Commission bonds than there would be for straight provincial borrowing although the Power Commission are doing it with a provincial guarantee. It should be less than that according to the bond market and yet we do find a very good market for Power Commission bonds. The American investor apparently recognizes the earning potential of this earning asset.

COMMISSIONER MacKEEN: Theoretically at least the Power Commission is self-sustaining and self-liquidating?

HON. MR. DesBRISAY: It is.

COMMISSIONER BROWN: Does the Power Commission have any earning capacity of American dollars, do you export power at all?

HON. MR. DesBRISAY: Yes, to some small extent.

COMMISSIONER BROWN: Not to any great extent?

HON. MR. DesBRISAY: No.

COMMISSIONER BROWN: This is one of the problems, is it not, in the Canadian economy, that until we get to the point where we get an export service we are having to borrow money to meet our interest and dividend payments externally and this is one of the arguments against going to the American markets because it increases the cost and this is what I think Mr. Leman is getting at in respect to

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extent that it increases our dollar to make these external payments?

HON. MR. DesBRISAY: Our borrowing in volume, of course, is so small as compared with other power commissions that on the over-all market it really does not affect the balance in Canada. This, I think, would apply to the Atlantic region, it would include the whole Atlantic region.

COMMISSIONER LEMAN: Except if you borrowed at a time when the Canadian dollar is at a 5 per cent premium and then repay over a period when it is at a $7\frac{1}{2}$ per cent discount your effective cost would be different. I am just wondering that you would let the fact that certain borrowers have an automatic exchange -- would you let that influence your judgment as to where to channel foreign capital?

HON. MR. DesBRISAY: I think so, yes. While the discount for a rough rule-of-thumb over the long term of 25 years, say, is half a point we can go up to 12 per cent and still be in our favour.

THE CHAIRMAN: That is all taken into consideration in your calculations?

HON. MR. DesBRISAY: Exactly.

THE CHAIRMAN: You assume that during the whole period there will be times when the dollar will be relatively low and even if it is you would come out the same as if you borrowed here at the interest rates you would have to pay unless it goes very much below your estimation. I know we went through the same situation.

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HON. MR. DesBRISAY: Yes, at the end of the extended period, ...

MR. O'BRIEN: The 20-year point would be three years.

COMMISSIONER BROWN: You have the power to call it in the last three years?

HON. MR. DesBRISAY: Generally two or three years. I think one was five.

COMMISSIONER BROWN: How about sinking funds, is there a sinking fund on the issues?

HON. MR. DesBRISAY: Every one.

MR. O'BRIEN: On every issue.

COMMISSIONER BROWN: So then the average cost of the dollar will come into your picture?

MR. O'BRIEN: Yes.

COMMISSIONER BROWN: I wonder if I can revert to a matter we were discussing earlier and that is these shared cost programmes and the extent to which the province is having to finance the federal participation to the point you make in your brief.

HON. MR. DesBRISAY: Perhaps I could ask the Comptroller-General to answer this as it applies to one programme we have in mind, the roads and resources programme, a total of $15 million. He will give some details as to what our position is at the moment.

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MR. McNICHOL: Mr. Chairman, the Roads and

Resources programme is a 10-year agreement covering the fiscal years 1959-1969. The gross amount of expenditure would be $15 million on a 50-50 basis. The expenditure is limited to $1½ million annually as far as the federal government is concerned. But over the 4-year period 1959-1962 the gross expenditure has been $7.4 million of which roughly $200,000 would be non shareable. That means that there would be about $3 million 5 which would be shareable and we have either received or will receive about $2 million 4 leaving about $1 million 1 which is outstanding as far as the federal government is concerned and which we would have to carry along to the end of the agreement unless we cut back on the programme between now and 1969. So that the province is actually financing $1 million over and above their requirements.

THE CHAIRMAN: The $1 million is over and above the share programme?

MR. McNICHOL: The province is spending its money at a faster rate than is permitted under the agreement.

THE CHAIRMAN: By $ 1 million?

MR. McNICHOL: By $1 million to date over the four-year period that we have gone so far.

COMMISSIONER BROWN: So this $1 million will not come back to you until the end of the programme?

MR. McNICHOL: Or if we cut back on the programme.

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MR. McNICHOL: Or if we cut back on the [illegible]

THE CHAIRMAN: In other words, you have

spent a sum of money half of which is contributed by the federal government and in addition to that you have spent $1 million of your own, is that right?

MR. McNICHOL: No, that is not quite right, sir. The $1 million is the federal portion.

COMMISSIONER BROWN: You have spent $2 million?

MR. McNICHOL: We have spent $2 million. We have paid our own and are carrying the other $1 million until such time as we can recover it under the agreement.

THE CHAIRMAN: Well, what is the delay?

MR. McNICHOL: Well, the agreement has fixed it at $1½ million per annum total. For instance, in 1960 the gross expenditure was $1 million 6 but under the agreement all we could spend was $1½ million. In 1961 we spent $2 million 1 to give us the $1 million 5 and in 1962 the figure will be $3.[illegible] million 2 as against the $1½ million.

HON. MR. DesBRISAY: I would like to point out in all these programmes where we did spend 2.1 we have to get approval from the federal government. We can only collect 750 in the current fiscal year.

COMMISSIONER MACKINTOSH: That is because you have really exceeded the programme ---

HON. MR. DesBRISAY: Yes.

THE CHAIRMAN: But you do catch up?

MR. McNICHOL: At the end of the agreement.

THE CHAIRMAN: Eventually you will get your total 50 per cent?

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HON. MR. DesBRISAY: I would like to point out in all these programmes where we did spend 2.1 we have to get approval from the federal government. We can only collect 75% in the current fiscal year.

COMMISSIONER MACKINTOSH: That is because you have really exceeded the programme ---

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MR. McNICHOL: Unless we exceed the $15 million.

COMMISSIONER BROWN: In the meantime you have to carry this million on that is costing you the interest charges on the million.

MR. McNICHOL: Yes, about $60,000 a year.

HON. MR. DesBRISAY: We have another example which Mr. Gallagher could give on this.

MR. GALLAGHER: As a general rule the province finances the federal share of the shared-cost programmes, even those in which progress payments are made, and we would finance on a month-to-month basis, or this sort of thing. Probably the most recent example of a programme whereby the province must finance the entire amount of the federal share falls under the recent policy with regard to ship construction assistance, and in this case -- in cases of smaller ships which are being built in the $300,000 or $400,000 class, although the regulations provide for a federal progress payment equal to 80 per cent of the total federal share, the federal government does not make such payments. They pay only after the vessel is placed in the water and ready to sail. This places, in cases where the province is involved, the province in the position where it must finance directly or indirectly the cost of the federal money.

THE CHAIRMAN: Could you elaborate on that? What sort of ships are involved?

MR. GALLAGHER: There is a fair range of ships that fall within the programme itself. The ones

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I have in mind particularly are fishing vessels such as trawlers; these are the large steel ones. We have a couple under construction now. These are the ones I am thinking of. But, the assistance applies to a fairly large range of vessels.

THE CHAIRMAN: What other type of vessels would be involved from your province's point of view besides the fishing?

MR. GALLAGHER: This is probably the only type we would be involved in -- that is, the government itself would be involved in -- but there is a large vessel under construction in Saint John under the programme, but the provincial government is not building it.

THE CHAIRMAN: But the federal government makes a contribution to that?

MR. GALLAGHER: The assistance would apply up to 40 per cent.

THE CHAIRMAN: There is assistance from the federal government to that particular project?

MR. GALLAGHER: To the ship owner. I think the regulations provide that ---

THE CHAIRMAN: What sort of ship is that?

MR. GALLAGHER: There is one -- I am not sure what it is.

COMMISSIONER MacKEEN: They are mainly draggers and trawlers, aren't they?

MR. GALLAGHER: No, this is larger than that.

COMMISSIONER MacKEEN: Coastal?

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MR. GALLAGHER: I am not sure.

THE CHAIRMAN: Some sort of tanker, is it?

HON. MR. DesBRISAY: That is my understanding.

MR. GALLAGHER: I am not certain what type it is.

THE CHAIRMAN: I am interested because there was a point made in your brief which I thought you regarded as one of considerable importance, that the federal government should invest more -- there should be more federal investment in the province in one form or another, and we have heard of some of the programmes where there has been federal investment, and this shipping is rather an interesting one. It is a little different from the usual. I was wondering to what extent that might grow -- how big a programme is it likely to be or has it been up to the present?

MR. GALLAGHER: I think it would be probably a bit early to be able to assess what the likely impact of the programme will be. I don't think anyone would argue with the merit of the programme. It would have the effect generally of stimulating the ship building industry in this part of Canada, and we would consider this to be desirable.

THE CHAIRMAN: This is intended to advance the economy generally.

MR. GALLAGHER: If I may interject, sir, Mr. O'Brien has informed me that the ship under construction is an ore carrier for a Greek concern. But, we have talked about two of the shared-cost programmes which are in the area, certainly, of

MR. GALLAGHER: I am not sure.

THE CHAIRMAN: Some sort of tanker, is it?

HON. MR. DesBRISAY: That is my understanding.

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economic development which in the government submission are indicated to be most desirable. We have not, however, talked about the shared cost programmes which are not in this classification, and these include the great bulk of the federal programmes with which we are concerned.

THE CHAIRMAN: That is the welfare, and so on?

MR. GALLAGHER: Mainly health and welfare.

THE CHAIRMAN: Well, if it were not for those programmes of health and welfare, would you be able to finance them yourselves? Do you think the programmes are going too far?

MR. GALLAGHER: I think it was emphasized in the submission that there was no argument with respect to the merits of the programmes, and certainly the availability of such shared cost programmes has provided a level of services in these fields which, in my personal opinion, the province would not otherwise have had, and I think most provinces would make the same statement, but there is general agreement in Canada -- at least, at my level -- that there is a number of pretty major defects in these programmes, and the federal people, I think, would be inclined to agree also. There is the question of controls of the rates of expansion and the introduction of new programmes, and in this area the province has played very little part in the over-all development of the programmes in these fields.

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is the fact that we have consistently maintained that the principle of fiscal need should be introduced into the shared cost programmes themselves, as well as just applying on the equalization formula with respect to the three standard tax fields, including the natural resource revenues which have been added recently.

COMMISSIONER BROWN: Can you give us some more specific examples? There is the hospital programme which is on a per bed basis. This means presumably, as the provincial government has to put up the largest share, they have control over this. But what are these other programmes of a capital nature, and what of a straight annual expenditure nature? Can you give us some more specific examples?

MR. GALLAGHER: That we are involved in at the present time?

COMMISSIONER BROWN: That you feel you are being pushed into without due consideration and consultation?

MR. GALLAGHER: I can give you again the most recent example, and again I must insist I am expressing a view here.

COMMISSIONER BROWN: Perhaps we should ask the Treasurer.

MR. GALLAGHER: But in the question of the old age assistance payments, we have a joint programme in this field whereby the federal government matches the provincial expenditures in terms of old age assistance and other allowances to various types of

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MR. GALLAGHER: But in the question of the old age assistance payments, we have a joint programme in this field whereby the federal government matches the provincial expenditures in terms of old age assistance and other allowances to various types of

disabled persons. Four months ago these grants from the federal government were increased on a retroactive basis. The government, again in my view, had very little real alternative but to go along. So, we are faced with the rather interesting spectacle of a programme in which the federal government matches the province practically placing the province in a position where it must match the federal share.

THE CHAIRMAN: The federal government has increased its share on the understanding the province will increase its share?

MR. GALLAGHER: That is right.

THE CHAIRMAN: Would that be -- I am not quite sure of which programme you are speaking?

MR. GALLAGHER: Old age assistance.

THE CHAIRMAN: Would that be from 65 to 70?

MR. O'BRIEN: Yes.

COMMISSIONER BROWN: This is the one with the means test?

MR. O'BRIEN: Yes.

MR. GALLAGHER: And the disabled persons allowances were included in the same deal. This is the most recent example which would serve as an illustration.

COMMISSONER BROWN: How much is involved in that?

MR. GALLAGHER: About half a million dollars a year -- that is our share. We have estimated the total cost to be approximately $1 million additional. The retroactive feature will cost the province about

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MR. GALLAGHER: About half a million dollars a year -- that is our share. We have estimated the total cost to be approximately $1 million additional. The retroactive feature will cost the province about

$100,000.

HON. MR. DesBRISAY: The other feature of this is that in our budgetary procedure we have no advanced warning. This came during our budgetary year, and we had to make some other provisions for that particular amount of money, over which we had very little control.

MR. GALLAGHER: These are not objections which this province is alone in raising. I think you will find in your travels around the country that almost every province, with the possible exception of one or two, will probably echo these views, with the possible exception of the fiscal aid concept -- I don't know how broadly based this would be outside this region. It would be widely held in this part of Canada.

COMMISSIONER BROWN: To sum up this, you feel on these cost-sharing programmes either there should be prior consultation or a fiscal aid concept in the sharing percentage basis.

MR. GALLAGHER: There should be both. I don't think it would be a question of "either/or". It seems to me in a programme area where both governments are exploiting, particularly when these are areas in which the federal government has extremely little jurisdiction, that the concept of some joint planning is not altogehter unacceptable.

THE CHAIRMAN: On that programme is there any discretion in the province to decide on the amounts payable under that scheme to individuals?

It is on the means test basis, and to what extent is the province free to decide on what sort of means test to apply? That is all part of the formula, isn't it? In other words, in a province where it may not be as urgent and necessary to increase the pensions now being paid as in some province where the cost of living has gone up very fast and relatively to a much larger extent, has the province got any discretion as to how much increase they should allow?

MR. GALLAGHER: It is my understanding there is really very little, once the limits have been set.

COMMISSIONER MACKINTOSH: Isn't it true the means test is set in terms of other income and financial assets which are the same for all the provinces and there is a theoretical freedom on the part of the province to say, "We are not going into this" -- but, that is a bit theoretical.

MR. GALLAGHER: Yes, sir.

THE CHAIRMAN: That is one of the great difficulties: It is difficult to refuse even though you think it may be the right thing to do.

MR. GALLAGHER: The reason for getting into this area at all is that if we break down our expenditures over the past 10 years the great portion of the growth is coming from these shared cost programmes, and the increase in our tax ratio -- the growth there is not the same. So, if you continue the project you get to the point where the province is going to be increasing its borrowing requirements, and we feel a very important alternative would be to

reduce the requirements themselves by altering the nature of some of these shared cost programmes.

THE CHAIRMAN: There is one place in your brief where you suggest New Brunswick has not been subject to any serious inflationary pressures. That is not the way it is put in words, but that is the impression I got. I was wondering whether that is entirely so. In the first place, if you are not subject to inflationary pressures I suppose the justification for an increase in some of these welfare benefits would not be very great unless the welfare benefits were not great enough, relatively, before?

MR. GALLAGHER: That is, I think, a very important "unless". We haven't been able to determine with any kind of precision what the relative costs of living are between New Brunswick and the rest of Canada. I think perhaps the only expressions of view in this regard are to be found in one of the sub-studies of the Royal Commission on Canada's Economic Prospects. I think their general view was that living costs were about the same all across Canada with the exception of Newfoundland which was about 10 per cent higher. But with regard to the absence of inflationary trends in New Brunswick, our conclusion was that we haven't been able to find in the history of the province that there has been the kind of economic conditions which would warrant any form of monetary restraint being applied. I think this was the context this view was expressed in. Other commissions and groups have examined this type of

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thing and probably come to the same conclusion.

THE CHAIRMAN: Well, in New Brunswick has there been a general increase in prices of commodities?

MR. GALLAGHER: Prices have certainly risen in New Brunswick over the recent years. Whether this is the result of the pressure of demand or we have got to the point where we have no excess capacity and no unused resources, I would be inclined to debate that, but we can get price increases in New Brunswick even if we were in the depths of total depression. Prices could still rise depending on what was happening in the rest of Canada and in North America.

COMMISSIONER MACKINTOSH: Your main contention is that you have not experienced inflation in the sense that there is an unsatisfied demand for labour in New Brunswick?

MR. GALLAGHER: Labour or some of our other resources as well.

COMMISSIONER MACKINTOSH: Is there, however, some inflation through efforts to establish wage and income rates comparable with other provinces even though your labour force may be under-unemployed?

MR. GALLAGHER: I think probably this tendency exists in New Brunswick to about the same extent it is probable in Canada at all vis-a-vis Canada's position with the United States. We tend to look at these as objectives.

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COMMISSIONER MACKINTOSH: But you might have circumstance in which a rise in labour rates in

Ontario and Quebec did reflect, you might say, over-employment in those regions and you might get some response in New Brunswick to level up, whereas in New Brunswick there was no unsatisfied demand for labour.

MR. GALLAGHER: I think this would be a possibility.

COMMISSIONER MACKINTOSH: How are the relative labour costs of, say construction, in New Brunswick as compared with the central provinces? Are they lower or higher?

MR. GALLAGHER: To point to one example, the Central Mortgage and Housing Corporation provide published data on costs of building similar type houses in various parts of the country, and on this basis our costs would be slightly, say, above those in certain parts of Ontario.

COMMISSIONER MACKINTOSH: Slightly above?

MR. GALLAGHER: Slightly above. We have such quality differences that I don't know how this would work out on balance.

COMMISSIONER MACKINTOSH: I thought you said this was a standard house?

MR. GALLAGHER: Yes, but a standard house is only a standard house according to C.M.H.A. standards in terms of how it is constructed. You may have in Ontario, for example, one type of construction -- that is, the material -- of bricks, and where we had used wood down here, and this type of distinction would not show up in the average cost

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per square foot. I think also you can build additional costs even into a standard house if you have sufficient income to do so. This is what the Central Mortgage and Housing people tell me, that you should not rely too much on these cost figures being quite precise.

COMMISSIONER BROWN: Your costs here are higher than in Ontario?

MR. GALLAGHER: In this particular type of construction, what data is available would seem to point to this.

COMMISSIONER BROWN: You think this is because it is a better quality house here?

MR. GALLAGHER: This may be a factor in reducing the differential. That is what I am suggesting: That our figures, if you had actually the identical house, and included things such as land costs, you may be a bit higher in the figures.

COMMISSIONER BROWN: How do you account for ---

MR. GALLAGHER: Excuse me: A bit lower.

COMMISSIONER GIBSON: One of the themes in your brief which you were just mentioning a few minutes ago was a tendency for provincial spending responsibilities to increase relative, I take it, to the tax base, and relative, presumably, to other levels of government. You gave us one of the reasons for this phenomenon which in your view was the development of the share-cost programmes which pulled you into financing programmes which you may not otherwise have gone into. What are the other factors that are working in this direction? This is not the only

thing, I take it?

MR. GALLAGHER: The other factors in just increasing the levels of spending on provincial levels?

COMMISSIONER GIBSON: Yes, and particularly increasing them relative to your tax basis and to other levels of government?

MR. GALLAGHER: Well, I think certainly one factor involves a consideration certainly of not financing your economy by much. Through the development of much more rapid transportation and communication systems people in New Brunswick and Nova Scotia are much more easily exposed to higher standards of living which prevail in other areas and I think this constitutes a factor in increasing that sort of effective demand on governments to provide such services on a level of quality ---

COMMISSIONER GIBSON: Such as roads, public utilities and that sort of thing?

MR. GALLAGHER: This type of thing. This is not the type of factor which you can point to specifically but I think there are some trends in this direction.

COMMISSIONER GIBSON: In other words, there is a social and political demand for sort of a national standard in these things?

MR. GALLAGHER: I think that people just expect more from governments because of these factors because they can see what other governments on a broader tax basis and rate of tax potential are able

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COMMISSIONER GIBSON: Are there any other factors?

MR. GALLAGHER: Yes, there is one other factor I have in mind. I am not certain of the extent this factor would increase spending but I am certain it does have weight on the effect of increasing the desire of governments to spend and that is the question of just what the role of government today in the field of economic development should be. It seems that most governments at the provincial level in the past 10 years or so have become much more aware of the fact that they have certain responsibilities in this field. So the extent to which these responsibilities should be made available is, of course, a function of the amount of money which they can generate for this purpose. At least it constitutes a force to increase the desire to spend and increase the responsibilities of the provincial governments for spending.

COMMISSIONER BROWN: These fall into two categories, the indirect, I suppose, such as your road programme, your excess roads, and the direct through financing of capital concerns etc?

MR. GALLAGHER: Yes, this latter one, there is a great deal of competition not only in Canada but in North America for new firms and the provinces have to compete in order to attract industries and to develop a fairly large programme. Whether indirectly, by providing facilities etc.,

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is another factor but in any event the costs have tended to rise.

COMMISSIONER GIBSON: Do you say this tendency is good or in future do you see anything alleviating it or improving it?

MR. GALLAGHER: From the point of view of this part of the country?

COMMISSIONER GIBSON: From the point of view of your province, yes.

MR. GALLAGHER: The only factor which would have the effect of increasing the province's ability or increasing the tax potential available to the province to meet this increased requirement would be some alterations in federal policy with increases to fall to the provinces. I am not competent to judge how likely this is in the immediate future or the long term but the factors which would increase the provincial ability to finance these types of expenditures, really you would need a much more rapid rate of economic growth of the province which would have the effect of developing its tax revenues.

COMMISSIONER GIBSON: Part of your expenditures are designed to do just those, this is the reason for development programmes?

MR. GALLAGHER: Well, we certainly are trying to achieve this effect but it is a question of the degree. We cannot go nearly as far in developing programmes of this type as we would like to and this prompted the emphasis on the suggestion that the federal government should sort of re-structure its form

of shared-cost programmes, to more or less move out from the health and welfare programme and go into the field of economic development and operate on this type of programme on a joint basis.

COMMISSIONER GIBSON: Are there major areas of economic development today where you would like to see specific substantial projects pursued?

MR. GALLAGHER: Ithink that we would be in a position to express some pretty positive views in this regard if the federal government said they would like to discuss them and move into this field.

COMMISSIONER GIBSON: Well, of course, it is your field.

MR. GALLAGHER: Well, there is some question about this. The field of economic development is no more the sole prerogative of the province than is the field of health or education.

COMMISSIONER GIBSON: Well, resources and property and civil rights are provincial, aren't they, under our constitution?

MR. GALLAGHER: That is correct, sir.

COMMISSIONER GIBSON: Isn't this what we are talking about to a large extent? Aren't these things in this sort of area?

MR. GALLAGHER: I do not just get the point you are making but the point I am trying to make is that in these fields which are, according to the constitution, really under the exclusive jurisdiction of the provinces I gather that you have suggested that economic developments fall within this same category.

COMMISSIONER GIBSON: To quite a large degree I should have thought.

MR. GALLAGHER: Well, the point I am making is that the federal government has had very little reluctance to provide and develop expenditure programmes in other parts of this exclusively provincial field and I cannot see that this provincial nature of the field should act as a barrier in keeping the federal government out of this. When we consider the fact that through the tax structure the great proportion of the tax revenues that accrue to the economy as a result of economic development, these revenues accrue to the federal government rather than the provinces.

THE CHAIRMAN: On the other hand some of these joint programmes have resulted from initiation taken by certain provinces?

MR. GALLAGHER: This is true.

THE CHAIRMAN: The pressure of public opinion in certain provinces for a hospital programme etc., and it was largely due to the persistence of the provinces that the federal government finally came into it, I think. If there are other plans for joint financing that would be appropriate for the economic development of a province which is beyond the province's reasonable financial resources at the time I would think a province could at least try to persuade the federal government to include that in their general programme.

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MR. GALLAGHER: I think that we have been

fairly active in attempting to do just this over the past few years and we are in the process of doing it again now.

THE CHAIRMAN: I would like further information as to the sort of programme you now have in mind that should supplement this shipping programme and road programme you have been mentioning. If there is to be federal investment in the sort of thing you mentioned today is there anything definite in the minds of the provincial government as to what sort of programme would be useful to economic development?

MR. GALLAGHER: Well, we have had discussions with the federal people from time to time in this regard. We have not been able to develop our proposal to the point where we felt that we had all the answers. We suggested at one stage a proposal whereby there would be some joint participation in a programme of developing taxing centres for certain industrial concerns in this part of the country. It seemed there were certain administrative and technical limitations to the degree to which we could pursue this but we have also developed some suggestions in the light of a shared-cost programme which would involve both governments in the development of facilities for manufacturing because at the present time the province of New Brunswick has a policy whereby it has provided a plant or constructed a plant for a manufacturer wishing to locate in the province. There does not seem to be any real reason why this type of

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programme could not be continued on a joint basis with the federal government involved.

But along with our suggestion in terms of this type of approach we have also suggested that we feel that the federal government and the resources in terms of personnel etc., that they have available to them would be extremely useful and helpful in determining just what type of programme would have the most suitable economic impact for our requirements.

HON. MR. DesBRISAY: We have suggested to one government body that they consider guaranteeing some capital loans. This was not met. We have no facilities for that. This is the type of loan that is beyond our financial practical resources for keystone, cornerstone industries. There is no institution in New Brunswick and we just do not have the financial structure to do it. I think this is in the field of monetary policy and should be developed jointly.

This is partly as the result of having Professor Cairncross and his explanation of what was happening in some other countries of the world where the federal government was realizing that industrial development is not only a regional problem but it has to be approached on a national basis.

While we do not have any specific areas or specific projects directly at the moment we would like to suggest that the federal government might be prepared to receive some suggestions and we would be quite prepared, as Mr. Gallagher has said, to point out to you within the next few minutes some very

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specific areas where a national policy of aid to industry would be very beneficial to our province.

COMMISSIONER BROWN: Do you follow some programme within the province of trying to encourage industries in backward economic areas or do you think industries should be developed in the areas where they are more likely to be successful? This is the whole problem, isn't it, that Canada is a nation, we have got to look at it as a nation and economic development has to surely come in those areas where it is going to be more successful?

HON. MR. DesBRISAY: Well, in the case I have mentioned we have industries that are willing to establish here now and they could be economically sound.

COMMISSIONER BROWN: But they have to have some help?

HON. MR. DesBRISAY: They have to have some major financial assistance.

COMMISSIONER BROWN: Where would they be established in the province?

HON. MR. DesBRISAY: In these areas where they could be most economically operated.

COMMISSIONER BROWN: There is my point and that is that these are probably going to be areas that are fairly successful now, are they not?

HON. MR. DesBRISAY: In certain cases, others not. Some of these are based on natural resources and they have to go to the source of the natural resources.

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COMMISSIONER BROWN: In that case then you would increase the disparity in economic development within your own province?

HON. MR. DesBRISAY: In certain cases. In other cases there are certain industries that could be located anywhere.

COMMISSIONER BROWN: Because of natural resources?

HON. MR. DesBRISAY: No, apart from that there are certain industries that could be located in any part of the province without having any serious economic effect on the industry and they might very well go wherever they might be located and, of course, from our point of view we would like to diversify these as much as possible but the first consideration is the most important, is it a profitable industry. That is the first consideration.

THE CHAIRMAN: If it is a profitable industry and it is impossible to borrow money on the market for some reasons could the Industrial Development Bank be able to fill in the gap?

HON. MR. DesBRISAY: No. At the moment our answer is no.

THE CHAIRMAN: Have you investigated that?

HON. MR. DesBRISAY: Yes, we have directly.

THE CHAIRMAN: What is the difficulty there?

HON. MR. DesBRISAY: They do not go to the size of money that is required. Their largest loan, I believe, is in the neighbourhood of $4 million or $5 million. It is a very low figure.

THE CHAIRMAN: What sort of industry are you contemplating that would go beyond that figure?

HON. MR. DesBRISAY: Some resources based industries.

COMMISSIONER MacKEEN: A smelter, for instance?

HON. MR. DesBRISAY: That might be one. There are a number of others.

COMMISSIONER MACKINTOSH: You are confident that there is a substantial unrealized economic potential here that if developed ---

HON. MR. DesBRISAY: We have tremendous resources in the province which are undeveloped at the moment and which will be developed in time. It is going to take a number of things to do it. One of the things we are talking about is money this morning but another is management. Money is not the complete answer.

COMMISSIONER BROWN: What was the second one?

HON. MR. DesBRISAY: Management.

COMMISSIONER BROWN: It is not just the availability of money itself or the cost of money ---

HON. MR. DesBRISAY: That is not the only factor. That is one of the factors.

COMMISSIONER BROWN: But management is the other main ingredient?

HON. MR. DesBRISAY: Another. I do not say it is the main but it is equally important.

COMMISSIONER BROWN: This is something that

is not always recognized.

HON. MR. DesBRISAY: Just as a matter of interest we have 50 per cent of our total land area in New Brunswick, Crown land, owned by the province. This is round figures.

COMMISSIONER LEMAN: That is an asset.

HON. MR. DesBRISAY: Of course. Being utilized it probably could be more productive as some of the nations of the world have shown with this type of asset.

COMMISSIONER BROWN: You mention the I.D.B. I gather you would like to see the I.D.B. more regionally conscious as far as development in New Brunswick is concerned. You have your own development department which makes advances on a somewhat smaller basis than the I.D.B.?

HON. MR. DesBRISAY: Yes.

COMMISSIONER BROWN: The I.D.B. function has increased quite considerably in the last few years. Has yours continued to function on the same level as before or has it decreased? I notice Professor Cairncross mentions that in Nova Scotia the provincial grants have decreased considerably since they began in the I.D.B.?

HON. MR. DesBRISAY: Ours have increased. This is from memory but ours have increased in spite of the increase in industrial bank loans. The I.D.B. have done a very good job regionally but they are limited. They are within certain limits and the things we are talking about are beyond the limits of

the present functions of the I.D.B.

THE CHAIRMAN: Suppose their limits were increased, is that the sort of organization that would be able to deal with the problem that you are presenting?

HON. MR. DesBRISAY: Yes, I think so.

THE CHAIRMAN: So that there is an organization that has some experience in financing enterprises which apparently for one reason or another are unable to obtain funds from the ordinary sources and apparently have had quite a successful record so far. If their powers were increased to take care of the type of situation you have in mind you think that might be an appropriate institution to do the job?

HON. MR. DesBRISAY: That is correct. They now have a complete organization and I can visualize could be extended to take care of this but we as a province do not want to set up an organization to compete with them.

COMMISSIONER BROWN: You co-operate with it now?

HON. MR. DesBRISAY: Oh yes, very much so.

THE CHAIRMAN: There may be certain dangers in getting involved with the provinces financially?

COMMISSIONER BROWN: To what extent do you co-operate now?

HON. MR. DesBRISAY: As an example, before any industrial loan is made before the board they are urged to approach the chartered banks, first, in the normal way and the I.D.B. and we co-operate very closely.

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They go there first.

COMMISSIONER BROWN: Are you paying out roughly the same amount as the I.D.B.?

HON. MR. DesBRISAY: We do not pay out any money; we guarantee only chartered bank loans.

COMMISSIONER BROWN: Not on a loan basis?

HON. MR. DesBRISAY: No, we guarantee only.

COMMISSIONER GIBSON: With regard to the I.D.B. you advocate that in times of tight money -- and I am not sure if there was a suggestion at other times too -- that the I.D.B. should make money available to users in the Atlantic provinces at lower rates than the rest of the country, and make it more available than in the rest of the country. Would you elaborate on this a little? I am not quite clear how far you are going in this proposal?

HON. MR. DesBRISAY: This has been done in other countries.

COMMISSIONER GIBSON: Lower interest rates or greater availability?

HON. MR. DesBRISAY: Greater availability -- both: In southern Italy they have been able to adjust their banking system to suit this condition. They have done it in northern Norway and in some other countries. While we don't have any specific formula, we suggest this as a possibility that the federal government and the Bank of Canada should explore.

COMMISSIONER GIBSON: Are you suggesting this is a possibility to apply only when credit is scarce and difficult to get, or as a general proposition?

HON. MR. DesBRISAY: As a general proposition for national economic development.

COMMISSIONER GIBSON: So this is not so much a cyclical proposition as a long-term proposition?

HON. MR. DesBRISAY: It is probably both.

COMMISSIONER GIBSON: Professor Cairncross made a proposal in a much similar direction so far as the banks were concerned. He did not suggest the rates of interest should be any different from one area of the country to another. In this particular case you are suggesting the rates of interest as well as the availability of credit should be lower: Would you envisage the I.D.B. having some difficulties of applying this policy?

HON. MR. DesBRISAY: This type of organization has applied it in other areas.

COMMISSIONER GIBSON: I am referring only to the interest rate side of it.

HON. MR. DesBRISAY: They do it in England.

MR. GALLAGHER: You are suggesting an element of subsidy, and I cannot see any reason why if on a short run in response to a rise in interest rate nationally, if it were considered that such increases in interest rates would not be appropriate to the steady level of economic activity in the Atlantic region -- there is no real reason why the I.D.B. rate should rise.

COMMISSIONER GIBSON: As long as the principle is quite explicit and you don't get a burying, because if that is the reason, the same argument should

apply to any other area in a similar position.

MR. GALLAGHER: Right. We are not holding up the Atlantic region to be unique in other than one fashion, that it is undoubtedly the part of Canada which lags further behind the national aggregate statistics.

THE CHAIRMAN: Yes, but what you are saying is that the sort of industry you are contemplating is one that could be set up on an economic basis, but it would not be a deficit industry. It would be a substantial industry; it would have a great impact upon the economy of the country, but nevertheless that it would eventually be a paying proposition and would not eventually have to rely on the government funds at all.

MR. GALLAGHER: We would hope this would be the case, that all subsidies involved in industrial location would be as temporary as possible and that you would not have to continue the subsidies in the same way you subsidize continuously a fair proportion of Canadian industry at the present time.

COMMISSIONER MacKEEN: Mr. Gallagher, do you think a differential in interest rates between $5\frac{1}{2}$ or 6 or $6\frac{1}{2}$ per cent to provide working capital for an industry would be of sufficient importance to make much difference in their success or otherwise?

MR. GALLAGHER: Well, I have never been convinced that interest rates were all that effective in the position of making progress in business, but on the other hand it would not hurt when you have a problem

apply to any other area in a similar position.

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COMMISSIONER MacKEEN: Mr. Gallagher, do you think a differential in interest rates between 5½ or 6 or 5½ per cent to provide working capital for an industry would be of sufficient importance to make much difference in their success or otherwise?

MR. GALLAGHER: Well, I have never been convinced that interest rates were all that effective [illegible]

like we have here that you try to inject all the environmental factors so they work in the direction of pulling industry in, and if this had only minor effect it would not hurt.

COMMISSIONER MacKEEN: If it is going to be a failure at $6\frac{1}{2}$, it is likely to be a failure at $5\frac{1}{2}$, is the point I am making.

MR. GALLAGHER: And I am inclined to agree that the rate of interest alone is not particularly decisive.

COMMISSIONER MacKEEN: The availability of money is a different thing.

MR. GALLAGHER: Right.

COMMISSIONER MacKEEN: I think that is more important.

COMMISSIONER BROWN: Do municipalities offer tax incentives for industries to establish?

MR. ALLEN: Yes, they do -- a great many of them.

COMMISSIONER BROWN: What sort of tax incentives?

MR. ALLEN: There are two categories: Either one that is based on a fixed valuation or a fixed tax.

COMMISSIONER BROWN: These are permitted by the provincial government?

MR. ALLEN: They must apply to the provincial legislation and get authority through a special act.

HON. MR. DesBRISAY: This has developed into a scramble between municipalities in the same way as it has between provinces.

COMMISSIONER BROWN: So, everything cancels out.

THE CHAIRMAN: Well, in the long run it might.

HON. MR. DesBRISAY: We know cases where an industry has located in another province rather than this because of the taxation which we could not compete with, and this is happening in our municipalities today. Our municipalities are fighting -- not fighting but competing amongst themselves: Who is going to give the biggest tax incentive for the location of the industry.

THE CHAIRMAN: You consider it an unsound way of doing business, do you?

HON. MR. DesBRISAY: It has to be an influence.

THE CHAIRMAN: I would think so.

COMMISSIONER MacKEEN: On the other hand, if there is an industry contemplating going into a school section with a very low assessment, if they haven't some protection they are very apt to find themselves paying for the whole cost of a rather extensive school building, are they not?

HON. MR. DesBRISAY: That is true. There probably should be some fixed ceiling, but some of our long-term fixed assessments are highly competitive amongst the municipalities.

THE CHAIRMAN: Yes, as the tax rates go up certain industries stay on the old rate?

HON. MR. DesBRISAY: That is right.

THE CHAIRMAN: That is what happens, isn't it?

HON. MR. DesBRISAY: Surely.

THE CHAIRMAN: Well, you also have a couple of paragraphs here dealing with agriculture and financing, the availability of funds to smaller types of farms: We met this problem in many other provinces, and there is the Canadian Farm Credit Co-operative, and the New Brunswick Farm Settlement Board, and then there is the Farm Loans Improvement Act, and you suggest that in spite of all those institutions there is still insufficient provision; is that the effect of it?

MR. GALLAGHER: I am not certain we suggested that.

THE CHAIRMAN: Greater flexibility is what you are getting at.

MR. GALLAGHER: Yes,I think our general impressions are that the availability of credit to farms which would be considered, say, economic -- that there is sufficient credit available from these resources and from the various private sources as well, but there are some cases involving the administration of the loans themselves in which the rigidities of administration have constituted a problem to the farmers being able to repay the loans even though the farms are reasonably sound. I think one thing our agricultural people have discussed is the possibility of relating to some extent repayments of loans to production in the same manner we do in the fishing industry. We have had a number of problems whereby because of the

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very extremely late spring farmers in certain areas have not been able to get crops in, and as a result have had some very difficult problems with the agencies from whom they borrowed. But it may well be that as the farm credit co-operative is not all that old -- its experience is only relatively short, and it may develop something along these lines naturally. I don't think we were questioning the availability of money. We were trying to look at the administration problems.

COMMISSIONER MacKEEN: Mr. DesBrisay, there was one point I was very interested in in reading the brief, and that is at certain periods when there appears to be over-expansion in certain provinces of Canada, to counteract that the bank's policy or the government's policy is to curtail credit in order to slow down excessive expansion. That same situation may not apply in other provinces, but the same curtailment applies generally throughout the nation, and your suggestion is that that could be and should be avoided in some way. I would be interested in hearing if you would enlarge on that as to how it could be done?

HON. MR. DesBRISAY: Going back, I think this has been done. This was partly based on Cairncross's theme -- his report that there should be some vehicle. We have not suggested any specific means of doing it, but I will ask Mr. Gallagher to expand on that.

MR. GALLAGHER: I think almost everyone will agree it is rather a difficult problem to assess just to what extent there is some differential impact

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HON. MR. DOUCETT: Going back, I think this has been done. This was partly based on Galbraith's theme -- his report that there should be some vehicle. We have not suggested any specific means of doing it, but I will ask Mr. Gallagher to expand on that.

MR. GALLAGHER: I think almost everyone will agree it is rather a difficult problem to assess just to what extent there is some differential impact

in a region like this resulting from a national policy of credit restraint. We have started on the premise that given the type of economy we have here and the rate of growth we have been getting that it would be inconceivable that any form of credit restraint applied in this area would be really required, and we have gone from there to the point where some form of policy must be developed in order to shelter the region from the effects of such a national policy if the policy is considered to be inappropriate to the needs of the province and the region.

We discussed this with the people in the Bank of Canada, and of course the Bank of Canada annual reports have stated fairly explicitly there is no way in which certain types of borrowers or certain regions can be -- no way in which monetary policy could be altered to give preference to regions like ours. Some suggestions have been made in the direction of setting up a regional banking system along the lines of that of the United States where we would have a central bank operating in a region. We have had a look at this, and we are inclined to doubt you would be able to do this in Canada. It would seem to me to be rather a difficult operation for a central bank to try and effect a stock of money in the region or effect interest rates when you don't have a money market of any type. So, we have been looking at alternatives, and we have come to the conclusion with the help of people like Professor Cairncross, through the use of more selective instruments of monetary policy that some strides might be taken to achieve the effect of sheltering the region.

Cairncross suggested, and we are inclined to support this, that the Bank of Canada should use its powers of persuasion, however extensive they may be, with the chartered banking system in order to instruct the banks, if that is the proper word, that any national policy of credit restraint should not be applied in this part of the country.

We feel probably in addition to this we have had to look at the I.D.B. and felt that by altering the nature of its operations in the short term it could have the effect of offsetting national policy of credit restraint which was making money less available to certain classes of borrowers. This was the basis for the thinking in regard to the differential interest rate level, and that I.D.B. might put into effect. We have also felt that the same effects could be achieved by adopting policies of a similar nature, say, by the Central Mortgage and Housing Corporation. This is the type of sort of selective instrument, and probably falls into the area of fiscal policy, undoubtedly, but it is in fact a monetary approach.

COMMISSIONER MACKINTOSH: Did you in fact find that the federal reserve system organized in 12 districts did produce a differential in rates?

MR. GALLAGHER: There have been cases of differentials existing. They don't normally exist for too long a period of time.

COMMISSIONER MACKINTOSH: They don't all work simultaneously?

MR. GALLAGHER: No.

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MR. GALLAGHER: [illegible]

very persistent differential except that interest rates are higher in some of the more remote districts and lower towards the big money markets?

MR. GALLAGHER: That is right, and that is true of rates generally aside from discounts and that kind of thing.

COMMISSIONER MACKINTOSH: So there is not really any presumption that developing 5 or 10 Banks of Canada -- which, God forbid -- would produce regional differentials?

MR. GALLAGHER: We haven't been inclined to pursue this form of solution.

COMMISSIONER LEMAN: Isn't it true in the United States they are drawing away from differential bank rates? They used to have differential bank rates -- discount rates -- and they are drawing away from that?

MR. GALLAGHER: Generally, I gather this is true, yes.

COMMISSIONER LEMAN: Mr. DesBrisay, I have another point I would like to ask a question about: In paragraph 118 you suggest: "Certainly, some attempt must be made to at least have the effects of monetary policy felt by the consumer finance companies and other non-bank holders of liquid assets." Some of these finance companies have already appeared before this Commission and they sort of felt that they were sensitive to these movements of monetary policy. What sort of night-stick did you mean to equip us with?

MR. GALLAGHER: I don't think any whipping action is intended. If you go back over the past five

or six years the behaviour of the credit extended by consumer finance companies I don't believe would indicate they were very responsive to the type of policies that were being pursued by the Bank of Canada. I think one of the annual reports of the Bank of Canada has contended that this type of broadening of the impact of its policies would be desirable. We are inclined to agree. I am not familiar with the argument expressed by the consumer finance companies that they are sensitive to monetary policy. I would be inclined to doubt they are to any significant extent.

COMMISSIONER LEMAN: What means would you suggest to use to make them feel the effects of monetary policy -- what specific tools would you have in mind?

MR. GALLAGHER: I would be inclined to believe that control of this type, or bringing this type of institution within the area where they are under the control of monetary policy would probably involve the development of some administrative controls to be implemented by the Department of Finance. This may well be a much more difficult thing to achieve than it would be by just moving interest rates up or down.

COMMISSIONER MACKINTOSH: What do you mean -- for example, controlling down-payments?

MR. GALLAGHER: This type of approach. The British have developed some controls in this area.

COMMISSIONER BROWN: Would you suggest the Atlantic provinces should be exempted in this situation too?

MR. GALLAGHER: I have not suggested.

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COMMISSIONER BROWN: Would you suggest the Atlantic provinces should be exempted from this sanction too?

MR. GALLAGHER: I have not suggested.

COMMISSIONER BROWN: But I am asking now, you are the one that said that.

MR. GALLAGHER: I do not really know. If we can assume that all these loans are being taken out in order to increase the purchases of consumer durables, say, in Ontario, then I cannot see any sound economic reason for exempting them.

COMMISSIONER BROWN: Cairncross in his paper, as I understood it, rather played down the detriment to this area because of the monetary restrictions on the banks. He rather came up with the conclusion that this may have had a very small effect but it was not really a large factor?

MR. GALLAGHER: I believe, if I recall correctly, he indicated that he could not find any large number of cases whereby production and employment had been affected by virtue of, say, tight money being implemented through the chartered banking system. I think this is essentially what he said. He did, however, go on to make the suggestion that some bank, presumably the Bank of Canada, should exhort the chartered banks not to apply with the same type of vigour a policy of credit restraint in this region that they would apply elsewhere.

This if a field in which I do not have any specific answers and I do not think anybody does as to the question of to what extent within a region like ours we would feel the force of monetary restraint more than it is felt nationally.

Cairncross said that he could not find very

you are the one that said that.

MR. GALLAGHER: I do not really know. If we can assume that all these loans are being taken out in order to increase the purchases of consumer durables, say, in Ontario, then I cannot see any sound economic reason for exempting them.

COMMISSIONER [illegible]: Cairncross in his paper, as I understood it, rather played down the detriment to this area because of the monetary restrictions on the banks. He rather came up with the conclusion that this may have had a very small effect but it was not really a large factor?

MR. GALLAGHER: I believe, if I recall correctly, he indicated that he could not find any large number of cases whereby production and employment had been affected by virtue of, say, tight money being implemented through the chartered banking system. I think this is essentially what he said. He did, however, go on to make the suggestion that some bank, presumably the Bank of Canada, should exhort the chartered banks [illegible] credit restraint in this region that they would apply elsewhere.

This is a field in which I do not have any specific answers and I do not think anybody does as to the question of to what extent within a region like ours we would feel the force of monetary restraint more than it is felt nationally.

many cases. There have been a number of theoretical arguments developed which would indicate that at least theoretically this should be the result, that regions like this should feel credit restraint with much greater force. People like Galbraith have written along these lines.

We have formed the judgment that it probably does, that credit restraint would have a greater impact down here than it is likely to have in other parts of the country.

COMMISSIONER BROWN: Not necessarily a greater impact but a more unnecessary impact.

MR. GALLAGHER: Well, both unnecessary -- any impact on monetary policy which was designed to slow down the pace of expansion nationally we feel, first of all, that this policy would not be appropriate down here at all to any degree but that the degree to which monetary policy is effective -- and I have some reservations of the effectiveness of monetary policy for achieving these objectives -- is probably more effective here than elsewhere.

COMMISSIONER BROWN: I rather got the opposite impression from reading Cairncross.

COMMISSIONER MACKINTOSH: Didn't Cairncross go on with a more positive statement that while he found some small effect of the direct influence of the higher rates here, much the greater effect was the direction of New Brunswick markets elsewhere because of the higher rates there.

MR. GALLAGHER: Well, there is always the

possibility that given the fact that Cairncross found only a small number of cases if he had looked longer and harder he might have found many more.

COMMISSIONER BROWN: I think if the effect had been general he would have found more.

MR. GALLAGHER: Pardon?

COMMISSIONER BROWN: I think if the effect had been general he would have found more.

MR. GALLAGHER: I would be inclined to agree.

COMMISSIONER MACKINTOSH: I think we have to admit that it is fairly difficult to find specifically an unquestionable incident anywhere in Canada where you could say because the rate was 6½ it did not go and if it had been 6 it would have gone.

MR. GALLAGHER: That is a minor factor even in the Atlantic region.

COMMISSIONER MACKINTOSH: It is hard to tell because it is added in to all the factors.

MR. GALLAGHER: But I think there might well be some logic in concluding that if the policy is designed to increase the cost and has the effect of developing a rationing process whereby credit is not as available as it was as far as the cost is concerned I do not think this is as important a factor, at least not as important as the question of availability. And then if you can conclude that larger firms because of equity capital can borrow nationally and that the small firms in New Brunswick do not have this alternative there might be forced upon them a disadvantage to some extent. There may be some logic in the theory that an area which is

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populated with a great number of small firms would feel the force of this credit rationing process to a greater extent than a more populated area. I don't know how far you could prove this but I think this is the general thinking that lies behind what has been included in the brief.

COMMISSIONER BROWN: I notice just at the end of your brief you come out in favour of a National Securities Act. Do you see any constitutional problems in arriving at this?

HON. MR. DesBRISAY: This is as a result of experience we have had with some of the other provinces. We find that legislation is varying greatly throughout the provinces of Canada and the Attorneys-General of the provinces are presently working on this problem. I have not seen recently whether they have come to any final conclusion but there seems to be an area which could be explored. Constitutionally I am not prepared to say.

COMMISSIONER BROWN: What argument do you see against it?

HON. MR. DesBRISAY: Against having national control?

COMMISSIONER BROWN: Yes.

HON. MR. DesBRISAY: We are in favour of it. We do not have any argument.

COMMISSIONER BROWN: You are not prepared to put up anything against it?

HON. MR. DesBRISAY: No.

THE CHAIRMAN: If necessary would you approve

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THE CHAIRMAN: If necessary would you a

of a constitutional amendment?

HON. MR. DesBRISAY: If it had to go that far, sir, I believe we would seriously consider it. It is certainly an area which has been unexplored and we feel at the the present because there is a great variety of legislation existing in the provinces and as a result it is hard. Undoubtedly what has happened in some parts of the west has done some damage to our market here in New Brunswick.

COMMISSIONER MACKINTOSH: In some of the other provinces we were given to understand that now that New Brunswick had put its house in order there were very little problems and that the provinces were fairly standard.

HON. MR. DesBRISAY: We have a very difficult time putting our house in order when people can dictate what we do when they are sitting in Toronto through the stock exchange. We had one very interesting experience in this regard not too long ago.

COMMISSIONER BROWN: In what way?

MR. GALLAGHER: Where one of the stocks of a New Brunswick based company, or at least where the operating property was in New Brunswick was taken off the exchange. This is the sort of thing that obviously would give us some kind of difficulty and sort of give our reputation another kick when it was clearly beyond our control.

COMMISSIONER BROWN: Isn't this one of the problems you get if you have central control with a bureaucratic organization that takes action without

recourse?

MR. GALLAGHER: This is the effect in any highly centralized system but as it applies now with all sorts of legislation applying on a very broad basis by individual governments some element of centralization would be called for.

COMMISSIONER BROWN: You would rather trust Ottawa than Toronto.

THE CHAIRMAN: They are both in Ontario.

HON. MR. DesBRISAY: I think if we had a federal agency without too many controls we would be prepared to disseminate the information across the province.

THE CHAIRMAN: Without too many controls?

HON. MR. DesBRISAY: Yes.

THE CHAIRMAN: Have you ever known of a body set up for that purpose that limited itself to the appropriate number of controls?

HON. MR. DesBRISAY: This might be an arm of the Department of Finance or of the Bank of Canada or some other financial institution that could do this but I think generally the other provinces we have spoken to find the same difficulty. We are exchanging information right now with Saskatchewan. We have no machinery to do this. We are not suggesting rigid controls but full information and standardization of securities fraud prevention acts.

THE CHAIRMAN: Well, thank you very much, Mr. DesBrisay and gentlemen. The brief has been very interesting and I think the discussion has been very

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THE CHAIRMAN: Well, thank you very much, Mr. DesBrisay and gentlemen. The brief has been very interesting and I think the discussion has

useful indeed.

We shall now adjourn until tomorrow morning at 9.15 when we shall hear the brief of the Atlantic Provinces Economic Counsil.

HON. MR. DesBRISAY: Mr. Chairman, should there be anything further you wish from the province of New Brunswick we shall be happy to furnish it.

THE CHAIRMAN: Thank you very much. We may call upon you for some further information.

--- Adjournment.

Royal Commission on Banking and Finance

Hearings held at

Fredericton

Vol. 20

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F.J. Nethercut and R.J. Young
Toronto, Ont.

Fredericton, New Brunswick
Tuesday, June 5th, 1962.

ROYAL COMMISSION ON BANKING

AND FINANCE

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Hearings held at Fredericton,
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THE COMMISSION

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Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
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Toronto, Ontario

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Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Fredericton, New Brunswick
Tuesday, June 5th, 1962.

--- On resuming at 9.15 A.M.

THE CHAIRMAN: We have the brief this morning of the Atlantic Provinces Economic Council. I believe Professor Smith will present the brief.

SUBMISSION OF THE ATLANTIC PROVINCES
ECONOMIC COUNCIL

APPEARANCES

Professor W.Y. Smith	-	President
Mr. Arthur Parks	-	Director of Research
Mr. Nelson Mann	-	Executive Director

--- Professor Smith reads summary.

COMMISSIONER MACKINTOSH: Professor Smith, I wonder, as a matter of background, whether you would expand a little on the Atlantic Provinces Economic Council? What relation, if any, has it to the provincial government?

PROFESSOR SMITH: We are completely independent of the provincial governments. We draw a grant from the province of Newfoundland. That is the only provincial funds we get. At the present time our revenues are about $110,000. The great bulk of this, all but $16,000 which we get from Newfoundland, comes from contributions within the region. So, we are an independent body completely. We are associated with

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the government on the Atlantic Provinces Research Board. This is a research organization that was set up by the four provinces, and Mr. Parks, who is our director of research, is the secretary of the board.

COMMISSIONER MACKINTOSH: The provinces as such do not participate in the Council except Newfoundland; is that right?

PROFESSOR SMITH: That is right, sir. We are an independent body completely.

MR. MANN: Mr. Chairman, may I speak to that for a moment?

THE CHAIRMAN: Yes.

MR. MANN: The province of Newfoundland's contribution is now 12. The reason for the Newfoundland contribution and participation is on behalf of industry. It is not on behalf of itself. I think this is important to understand. We have some 380 odd members in Newfoundland, representing Newfoundland, and instead of APEC getting contributions from them the government of Newfoundland pays for them. So, for the record, I think it should be made clear that really the government of Newfoundland are paying for the industrialist, and therefore the members of APEC are all free and independent of government completely.

COMMISSIONER MacKEEN: Perhaps you would tell the Commission what your total membership is?

MR. MANN: It is in excess of 2,000 and these come from all parts of the four provinces, and I might say, Mr. Chairman, a number of these members are from firms whose head office is in central Canada but who do

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business down here.

COMMISSIONER MACKINTOSH: As I understand one of the main contentions of your brief, it is that the level of economic activity in this region depends on capital investment.

PROFESSOR SMITH: To a very great extent, on capital investment.

COMMISSIONER MACKINTOSH: This, in turn, depends on business expectations on the one hand and the amount of government capital investment on the other. Now, the implication of this, I take it, is that the Atlantic provinces could -- and if they could -- by what you might call induced investment on either public or private, break out of the circle of relatively low income and low employment. They might, as it were, get into another orbit at another level.

PROFESSOR SMITH: This is right, sir.

COMMISSIONER MACKINTOSH: What I do not find in your brief, and what interests me, is, what are some of the fundamental disabilities which have kept incomes in the region down and have made business expectations less attractive than elsewhere, and what solid basis is there for the hope that these disabilities can be overcome?

PROFESSOR SMITH: Dr. Mackintosh, this is a very good and very valid question. Historically, the history of this region has been very greatly conditioned by the immense capital losses which hit us in the period between 1880 and 1900 due to technological changes and other factors. We did suffer

business down here.

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enormous capital losses, but at the same time, looking at the growth of Canada after Confederation, there was certainly a decline in our location advantages. Whereas in 1867 we were situated, say, in the heart of the then industrialized part, by 1939 this situation had completely changed; Canada had filled out; we were on the periphery of a great trans-continental Canada. Also in this period the relative value of our resources declined.

COMMISSIONER MACKINTOSH: You mean relative to the resources in other regions?

PROFESSOR SMITH: With the opening up of the West -- the opening up Canada -- our resources declined in their relative value. Then, of course, the growth of the tariff had some impact on it. I wish I could quote verbatim from the report you wrote for the Rowell-Sirois Commission. I have on many occasions used what you said on that occasion.

COMMISSIONER MACKINTOSH: That is the trouble with the Atlantic provinces: They are always bringing up history.

PROFESSOR SMITH: I have in many cases quoted what you said about the impact of the tariff -- that it came just at the wrong time when we were trying to adjust to basic technological changes. Then, of course, in the twentieth century you have the concentration of industry and the growth of monopolistic competition which meant that secondary industry in Canada tended to aglomerate in Ontario and Quebec, and the small Maritime manufacturer found it increasingly difficult

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to compete. There were other factors: The opening of the Panama Canal adversely affected our forest resources; competition from British Columbia not only affected our position in the U.K. but in the markets of the United States seaboard and, indeed, in the markets of eastern Canada itself. So, a whole series of institutional factors and basic economic factors beginning about 1880 have affected our relative position within the national economy. I do think also there is some tendency in any federal system for the institutions to become adapted to the needs of the more rapidly growing regions rather than the regions which are in economic difficulties.

COMMISSIONER MACKINTOSH: Let me come at the same viewpoint from another angle: What do you see as the characteristics of an Atlantic economy or an Atlantic area in the Canadian economy which might in present day terms be viable and highly productive?

PROFESSOR SMITH: Well, I think that if you look at the changes which are underway in world trade at the present time it is quite possible in the next 20 years our location advantages will improve. It would seem to me we must move towards much freer trade in the whole North Atlantic area and that we will have greater access to the markets of the United States than we have had in the past, and to the markets of Western Europe.

COMMISSIONER MACKINTOSH: What commodities are you looking at in this possible increase in exports?

[illegible]

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COMMISSIONER MACKINTOSH: What committee [illegible]

PROFESSOR SMITH: If you look at the way conditions are developing in Britain and Western Europe you find what is happening in essence is that they are moving into the North American standard of living, the standard of living for many people -- for middle class, if you like to use that phrase -- which we began to get in the later 20's. This means a very great demand for base metals and for pulp and paper. So, I would think our resource industries should find expanding markets in Britain and in Western Europe -- forest products and base metals. We don't feel the resource industries -- the growth in them alone would be sufficient to absorb our labour force -- the increase in our labour force. We think these industries are too capital intensive and that we must have considerable expansion in secondary industry, and that it is possible in this area to build up a secondary industry which is selling quite a substantial amount of its production overseas. It has really been remarkable in the last seven or eight years, the firms in the Atlantic provinces that have been able to open up and develop markets in Western Europe.

COMMISSIONER MACKINTOSH: What sort of products?

PROFESSOR SMITH: For example, the Chestnut Canoe Company in Fredericton here. It does not make too many canoes now. They really build pleasure craft. They have developed a fairly substantial market in Britain in pleasure craft.

Another good example is the McKane Food

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Another good example is the McCain Food

Products in the Upper Saint John valley. They have built up very substantial markets for frozen foods in the United Kingdom so we do think it is better to extend our secondary industry.

In other words, we do feel that basic changes in world trade in the past 20 years may be in our favour, that we may recover something of the locational advantages we had in the 19th century. But we feel that this won't be enough, that we need specific national policies to help us and accelerate growth. The over-all international situation, the over-all environment in which we are working may be more favourable to us but to take advantage of this situation we feel a new national policy is required and quite frankly our area of regional development has been very much below development in other countries.

If you look at Canada we are practically the only country in the western world that has not got comprehensive policies to assist with the accelerated growth of such regions. Practically every country in Western Europe has these policies and, of course, in the United States they have recently passed the Area Re-development Act. This Act only wentthrough Congress in 1961 and it is pretty early to judge its effectiveness but if you look at the sort of policies that have been adopted in Britain and France or in Italy or in Norway you will find that the common denominators of these policies are (1) that the Federal Government has spent very considerable funds to improve the social overhead capital structure. The Italian

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Government have spent very substantial funds in Southern Italy improving roads, railway service and in irrigation but in addition to that some direct action has to be taken to spur on more capital development itself. In other words, it has been found that just giving the social overhead capital structure is not enough. This would help but essentially it is permissive and what is needed is a policy which more directly affects industrial and capital development.

Here, policiess are usually divided roughly into two categories. One is a programme to develop cornerstone industries. We try to get something really big into six or seven centres in a region which will become the nucleus of growth and industrial concentration.

COMMISSIONER MACKINTOSH: I would like to get into that a little later. You feel if some of these measures you recommend are undertaken and undertaken in sufficient mass and volume that self-perpetuating momentum could be developed here?

PROFESSOR SMITH: Yes, and I think the social cost of some of the aid we are getting in Canada could be reduced.

COMMISSIONER MACKINTOSH: Now, supposing the recommendations that you are making for institutional changes were carried out and they go to work , how will the hoped for multiplier effect of that be contained in the Atlantic provinces?

PROFESSOR SMITH: Well, of course, all of it would not be contained but if we developed certain growth nuclei, this, of course, in itself will broaden the

market in the region and, of course, one would hope that the industries that are developed -- in fact the policy should ensure that the capital is steered into the industries which have strong linkages within the region. For instance, if we could start something big anywhere, let us say in the Bathurst-Newcastle area in the way of base metal smelting and refining and get a sulphur by-product we would hope you would link from there into chemical products. So that you would try to gear ---

COMMISSIONER MACKINTOSH: A lot of industries have sulphurous by-products across the country.

PROFESSOR SMITH: But these are very well located. The base metal deposit is right on tidewater with ready access to world markets. It is particularly well located. So that as you get your cornerstone industries you should think in terms of the linkages they would have and, of course, the fact that they would broaden the market itself. Of course, the multiplier itself cannot be contained within the region.

COMMISSIONER MACKINTOSH: You suggest a Capital Projects Commission and Capital Fund. How would you envisage that Capital Projects Commission being composed and how would it work? Is this primarily a planning commission?

PROFESSOR SMITH: No, we would envisage the Capital Projects Commission itself being a body that would consider projects of all public investment that would be directed to it by the provincial governments and it would study these and would establish priority and

market in the region and, of course, one would hope that the industries that are developed -- in fact the policy should ensure that the capital is steered into the industries which have strong linkages within the region. For instance, if we could start something off anywhere, let us say in the Bathurst-Newcastle area in the way of base metal smelting and refining and get a sulphur by-product we would hope you would link from there into chemical products. So that you would try to gear ---

COMMISSIONER MACKINTOSH: A lot of industries have sulphurous by-products across the country.

PROFESSOR SMITH: But these are very well located. The base metal deposit is right on tidewater with ready access to world markets. It is particularly well located. So that as you get your cornerstone industries you should think in terms of the linkages they would have and, of course, the fact that they would broaden the market itself. Of course, the multiplier itself cannot be contained within the region.

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would recommend to the federal government the ones that should be implemented and report on the ones that should not. The planning itself should be done by the provincial government. We are not suggesting it be taken out of their hands but it would be a body which would assess and advise the federal government and establish priorities as regards the public investment projects which would really give a direct stimulus to growth.

COMMISSIONER MACKINTOSH: And be concerned entirely with government projects?

PROFESSOR SMITH: Yes, this is the Capital Projects Commmssion. In addition,as we said, there would be a fund which would be administered by a competent group of people, a group of commercial and businessmen I should hope with some knowledge of commerce and industry and they would consider proposals in regard to cornerstone industries and assistance to their progress.

COMMISSIONER MACKINTOSH: The fund then would be of assistance to private industry?

PROFESSOR SMITH: Essentially assistance to private industry directly.

COMMISSIONER MACKINTOSH: Now, what do you see as the characteristic of these cornerstone plants and how can you tell one if you meet it?

PROFESSOR SMITH: Well, if I were assessing a cornerstone industry I would be very concerned about its linkages, that is, the industries that might proliferate around it, the extent to which it produces

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a product and encourages industry to develop utilizing this product and the extent to which the industry itself establishes a market for other industries. To a certain extent economic growth is organic in nature and one industry tends to create external economies for another. If you develop in a region seven or eight centres of industrial complexes and you get linkages then you will find other industries would proliferate around it with all the other economies that come from skilled labour itself. The industry itself will attract industry.

COMMISSIONER MACKINTOSH: It is not easy to select industries which generally turn out to be a cornerstone industry. I can see some possibility of the scriptures being reversed -- the stone which the builders chose which turned out not to be the head of the corner?

PROFESSOR SMITH: That is true.

COMMISSIONER LEMAN: Have there been quite often a lot of promotional efforts made in the Maritimes that have been unsuccessful? I assume the Council would follow this closely and watch it,wouldn't it?

PROFESSOR SMITH: Yes indeed we would.

COMMISSIONER LEMAN: Has there been quite a lot of local initiative used to try to provide such keystone industries which have been unsuccessful because of difficulty in raising capital or lack of knowledge of what the market prospects would be?

PROFESSOR SMITH: One could think of several

instances of keystone industries that might have developed here in the area if more incentive had been held out to them. I cannot think of any keystone industries that have been promoted that proved to be failures in the sense that they got into production and were then complete failures.

If you look, say, at the lead-zinc deposits in the Bathurst-Newcastle area it seems to me it would be in the interests of the government of Canada to do anything within reasonableness to encourage the development of a large lead-zinc-chemical complex in that area. An effort is being made to get that underway at the present time and probably will go on and develop but I would say if it turns out that there are particular assistances or incentives needed then the federal government should provide these. It is an area of high unemployment and the social costs are very high and if you can give this sort of aid in the long run it may be less expensive.

COMMISSIONER BROWN: What are the obstacles or the objections to private industry establishing such a smelter in that area now?

PROFESSOR SMITH: There are no objections and, as I say, a company has been organized to do that but all I say is in a situation like that where the creation of a big industrial complex centre is being promoted it is not an easy thing and if aid is necessary we feel it should be forthcoming. This is the particular point we make.

COMMISSIONER BROWN: I was just trying to find

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out why private industry has not established it already.

PROFESSOR SMITH: Well, the market for base metals has been very depressed for the last four or five years.

COMMISSIONER MacKEEN: This answers the question, doesn't it, that discovery of the mineral resources coincided with a world surplus ofthe minerals and there has not been much inducement to develop since?

PROFESSOR SMITH: That is it, but developments are underway at the present time.

COMMISSIONER BROWN: Is there a bit of bargaining going on to wait and see if they can get some assistance before they actually go ahead?

PROFESSOR SMITH: No. The province has offered them certain assistance but this is only one example. There are other instances. There is a company very interested in developing the manganese deposits in the Woodstock area. I have talked to some of the executives and here they are and have been held in the past as far as I know by a shortage of capital.

I know of a number of large industrial plants during the years that I was economic advisor to the government that could have come in if we had been able to give them the sort of assistance that they needed and that they could have got in many of the countries of Western Europe.

COMMISSIONER LEMAN: What has been the history of industry based on forest products?

PROFESSOR SMITH: Very good indeed. Our pulp

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and paper industry has been growing very rapidly. The productivity of the industry is very high. It is a very highly developed and very efficient industry.

COMMISSIONER LEMAN: Do you regard it as a keystone?

PROFESSOR SMITH: Oh certainly.

COMMISSIONER LEMAN: Is it not easy to build more around it?

PROFESSOR SMITH: Well, the pulp and paper industry is a capital intensive industry. If you look at the figures for employment in the resources industry they have been falling because the resources industry is agriculture, forest industries, mining, and they have become more and more capital intensive so we need a very definite attempt to build up cornerstone industries based on labour intensive secondary industry.

COMMISSIONER GIBSON: Have you had much expansion of secondary industry related to pulp and paper and other wood products?

PROFESSOR SMITH: It has been slow.

COMMISSIONER GIBSON: I can think of one or two cases and you wonder why it does not go farther.

PROFESSOR SMITH: At the present time I can think of one development which is linked to pulp and paper. Canadian Industries Limited are opening a new caustic soda chlorine plant at Dalhousie. This, of course, is linked to pulp and paper but there again you are faced with an industry that is very capital intensive. There have been some but it has not been substantial. By and large the employment in secondary

industry in the Atlantic provinces today is about what it was in 1946.

COMMISSIONER GIBSON: When you were talking about secondary industry you gave a couple of examples and it seems to me that both these examples are particularly related to your resources industry. You give land and in the other case, in the case of the Chestnut Canoe Company because, I suppose, of a demand for canoes and lots of good wood around?

PROFESSOR SMITH: I think we will get a few developments based on this but the growth of employment encouraging industry has not been substantial.

COMMISSIONER GIBSON: But you see a secondary industry growth in the main, I take it, related to certain natural advantages and natural products. This is not a sort of general increase you are talking about in secondary industry?

PROFESSOR SMITH: Most, I think, would have linkages in the region, yes, but, of course, there are also many industries which are footloose in the sense of tending to move to the labour supply if the labour supply is at all attractive. Electronics is an example. We would expect, if we had the right sort of policy to attract some of this footloose industry but naturally a very large industry would naturally be linked to our resources, our locations. Some economists consider location as a resource.

COMMISSIONER LEMAN: How about the labour supply? You say in areas of relatively high unemployment. What has been done to arrange a good labour supply and

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PROFESSOR SMITH: Well, labour rates here on the average are very substantially below rates in other parts of the country. I would not want you to think that I feel that economic growth is simply a matter of capital formation. I think you know in the last five or six years there has been a definite change in thinking in this regard. I think of Colin Clarke's book on Growthmanship.

COMMISSIONER MACKINTOSH: Colin Clarke has ridiculed a lot of things.

PROFESSOR SMITH: Education is tremendously important and all our provincial governments are making a real effort on the technical education side. I think we must do more on this side. You mention capital formation. It is a factor of economic growth which is most closely related to this Commission. I would not want you to think that I have any idea that capital formation itself is the answer to growth.

MR. MANN: While the reference will be to a resources industry yet the establishment of the new Stora Kopperberg plant at Canso Strait has given such an upsurge in employment in industry surrounding this new plant as the Fraser did when it started etc., but this is something that is brand new to the region and really having its effect.

COMMISSIONER MACKINTOSH: What is the plant again?

MR. MANN: It is the pulp and paper industry.

COMMISSIONER GIBSON: This is what you described

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COMMISSIONER GIBSON: This is what you described

as a cornerstone operation?

MR. MANN: Yes.

COMMISSIONER GIBSON: Do you see much else coming in around that?

MR. MANN: Well, the establishment of the harbour facilities as the result of its locating there points up a number of things. Already another resources industry is building and is going to ship from there now. Along with this there have been certain industries that have taken a look at it and I think as time goes on this area will grow as a result of the start made here. The same thing will be true, we feel, in the Bathurst area but, as I was saying, this is in a resources sector. We find that it is in the secondary manufacturing end which we are trying to concentrate on and to point up where employment can be most effective.

COMMISSIONER MACKINTOSH: Has there been any experience in the region with industrial estates?

PROFESSOR SMITH: Yes, there has. Nova Scotia has an industrial estates corporation. New Brunswick was prepared to do roughly the same sort of thing, and the other provinces have both at times done this, and the experience with industrial estates in Nova Scotia has been very encouraging indeed. Mr. Mann is more closely related to the operations of it than I am, and perhaps he would like to say something.

MR. MANN: Well, Mr. Chairman, the industrial estates operation -- and you have a member on your Commission, so that he knows more than I do -- has been extremely successful, and in excess of 20 plants

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COMMISSIONER MacKEEN: On cornerstone industries, do we not suffer from the fact we haven't got certain suppliers who would enable secondary industry to either establish or expand? I have several of them in mind, and I will mention one in particular, and that is the fact there is no container industry -- tin cans or glass bottles or glass jars -- in the Maritime provinces. They all have to be imported long distances empty and returned full, and it is very expensive. Wouldn't that be the type of industry that you would look to -- such a body as you have in mind -- which would enable an expansion in that range, and if it were established a lot of small industries could get going.

MR. MANN: This is very true. This is the sort of industry we would like to encourage. There is the problem of economy of scale, and this has been one of the deterrents for the location of such an industry to date. Our Council is doing the kind of work that finds out what the market is and tries to expand the total volume involved to interest industrialists to locate here. However, this is the sort of thing.

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COMMISSIONER LEMAN: Professor Smith, at the risk of getting a little bit off the specific subjects the Commission is supposed to look into, I would like to ask you a question: Why is it that in the problem you are now describing to us that you need the federal -- would it be possible for the four provinces together, if you think the characteristics of these four provinces are regional in character, and therefore could form the basis of a very fundamental understanding between them, would their economic power if put together, consolidated in some way, not bring this about?

PROFESSOR SMITH: I don't really think so. I would think the tax base would be enough. I think they are doing about all they can do at the present time. If you look at the experience of other countries that have been faced with our situation, it has been done by the national government. You need the credit and authority of the national government behind the policies to make them work. I don't know of any lagging region that has pulled itself up by its own bootstraps. It is the national government that has come in and given the sort of aid that is necessary.

COMMISSIONER MACKINTOSH: But in most of those instances there is no provincial government.

PROFESSOR SMITH: Of course, in the United States the area redevelopment act is an example of the federal system -- of the action necessary from the federal government.

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PROFESSOR SMITH: Except it is an example of the principle being accepted, that with this sort of problem you do need the national government.

COMMISSIONER LEMAN: What I have in mind is that I don't think the capital necessarily needs to all come from this source. What I have in mind, rather, is the creation of the right type of local or regional commission, and you could create an atmosphere of support etc., to attract private capital. I don't think you would necessarily need to find the capital in this region, or perhaps just a portion of it. You could attract private capital from elsewhere by creating a setup so favourable for it -- however, I am asking you the question, not answering it.

PROFESSOR SMITH: I don't believe it could be done this way, that the amounts involved would be too large, and all I can say is that the experience in other countries is against it, that it has always been the national government which has stepped in to do it. The latest example is the redevelopment act in the United States where the United States government has accepted the principle that it is a national problem. If you read the message Kennedy sent to Congress, he made this very specific. He did say while the municipal governments and the States have a role to play -- and we would agree they have -- since it is a national problem, it requires assistance from the national government.

MR. MANN: Mr. Chairman, this is a very difficult question for us or anyone here to answer -- this particular

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COMMISSIONER BROWN: Saskatchewan has had some experience in working this out on a provincial basis.

MR. MANN: Yes, on a provincial basis. Mr. Leman was talking about the four provinces -- not just one province.

COMMISSIONER BROWN: Well, presumably, four provinces would have more capacity than a single province.

MR. MANN: I am not going to say any more. I think you know what I mean.

COMMISSIONER LEMAN: There is such a thing as the European Common Market.

MR. MANN: Which is a wonderful example.

COMMISSIONER MACKINTOSH: In another part of your brief is the argument in favour of insulating the Atlantic provinces from any kind of credit restraint that may prove to be desirable for the economy as a whole. There doesn't seem to be a great deal of specific evidence that high interest rates or credit rationing have actually been a very effective strength, or that they have bitten into the Atlantic economy to the extent that investment did not go forward or projects were necessarily postponed. At least, that is what I get from Cairncross.

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PROFESSOR SMITH: But we acknowledge in our

brief that we do not consider it has been a major factor in retarding growth. We simply say, why apply a monetary policy to a region when it is inappropriate? There are a number of institutional factors which make it difficult: One of them is that periodically you are faced with a monetary policy which is inappropriate to the economic conditions in the region; to the extent possible, try to temper the wind to the shorn lamb. This is all we are saying.

COMMISSIONER MACKINTOSH: Of course, this runs all the way through. I can say, why is the government applying a policy to discourage excessive consumer spending? Why are they applying this. I haven't been conscious of any inflated income -- any excessive spending. But, we all come under it. Isn't this analogous to the region?

PROFESSOR SMITH: Well, of course, the whole matter of the selectivity of monetary policy is an awfully difficult question. We feel that there is some precedent for this and it could be done quite easily.

COMMISSIONER MACKINTOSH: To what extent -- by what means could it be done?

PROFESSOR SMITH: Quite frankly mainly by moral suasion, that the Bank of Canada would say to the commercial banks, "We want you to restrain credit in the country as a whole because of strong inflationary pressure, but the situation in the Atlantic provinces is not such that this needs to be done, and you don't have to apply the same sort of regulations and restrictions there that you are applying in the rest of the country." The British,

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of course, have done this -- attempted to. Lord Amory in his budget speech of 1959 announced he was asking the commercial banks in areas where there were high levels of unemployment not to apply rigid credit restrictions. So, as regards the workings of monetary policy itself, we think moral suasion would be one way of doing it.

COMMISSIONER GIBSON: Following up on this quotation you made from the United Kingdom experience of not applying restrictive policies in areas where there was a large amount of unemployment, what is the appropriate unit to think of in Canada? Is it a province? Is it a region? Is it an area? This seems to me to get at the fundamental problem here. How do you define an area of heavy unemployment? Do you take a great chunk of the country, or do you just take the places where you have a major problem?

PROFESSOR SMITH: This is bound to be arbitrary. I would say I would think of it in terms of regions, that it has become customary to divide Canada into regions: The Atlantic region, Quebec, the Prairies.

COMMISSIONER GIBSON: Would you say the Prairies is a region when Alberta has been growing much faster than the rest of the Prairies?

PROFESSOR SMITH: There may be times when you say, "No; we are going to split it into two regions." I am not sure it has reached that stage yet.

COMMISSIONER GIBSON: So you would think in terms as big as that?

[illegible] course, [illegible]

Among in his budget [illegible]

asking the commercial banks in areas where there were

[illegible]

policy itself, we think moral suasion would be one way of doing it.

COMMISSIONER [illegible]: Following up on this quotation you made from the United Kingdom experience of not applying restrictive policies in areas where there was a large amount of unemployment, what is the appropriate unit to think of in Canada? Is it a province? Is it a region? Is it an area? This seems to me to get at the fundamental problem here. How do you define the area of heavy unemployment? Do you take a great chunk of the country, or do you just take the places where you have a major problem?

PROFESSOR SMITH: This is bound to be arbitrary. I would say I would prefer it in terms of regions, that it was [illegible] to divide [illegible]

Maritimes.

COMMISSIONER [illegible]: Would you say the Maritimes is a region [illegible]

[illegible] the rest of the [illegible]?

PROFESSOR SMITH: [illegible] you say, "No; we are going to split it into two regions," I am not sure [illegible].

COMMISSIONER [illegible]: [illegible] it

PROFESSOR SMITH: Yes, I would.

COMMISSIONER GIBSON: Because you are leaving out an awful lot when you do that. Each one of these regions is a very large chunk of the country.

PROFESSOR SMITH: The region I am most knowledgeable about is our own region, and my experience is that it would be quite safe.

COMMISSIONER MACKINTOSH: Isn't it possible that Moncton ought to be restrained and the North Shore encouraged?

PROFESSOR SMITH: Well, as I say, in all these things there are the arbitrary factors and operational factors.

COMMISSIONER BROWN: I think the real thing is that monetary restraint should be applied to Ontario and not to the rest of Canada; isn't that it?

PROFESSOR SMITH: There have been times when there would be some validity in that.

COMMISSIONER BROWN: I think Mr. Gibson has a point, and that is that even in the Atlantic provinces there are some areas that are relatively prosperous.

PROFESSOR SMITH: Yes.

COMMISSIONER BROWN: And it is going to be difficult to say to people in Ontario, "We are restraining you, but this prosperous area in the Atlantic provinces is not restrained."

PROFESSOR SMITH: In the United States they have broken up their federal reserve district into twelve districts; they try to work on the basis of

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twelve districts.

COMMISSIONER BROWN: Now they are moving in the other direction.

PROFESSOR SMITH: I know the tendency is that they have moved away from that type of monetary policy there. It is quite difficult to ascertain the extent to which a region is still viable in regard to economic policy. I made an attempt several years ago to examine this, and all I am saying is that in the United States they split the country into twelve districts.

COMMISSIONER BROWN: But in the United States they didn't have a branch banking system that went across State boundaries, and this is one of the problems in our banking system if you try to apply regional monetary policies. Also in the United States, I understand they are swinging away now from the twelve regions and coming back to a more centralized one.

PROFESSOR SMITH: My point is this could be done in our present banking system on a regional basis by moral suasion.

COMMISSIONER MACKINTOSH: I think we first heard of moral suasion in Victoria some months ago, and it has come up in various forms. I think this ought to be made explicit: You are essentially talking of credit rationing?

PROFESSOR SMITH: Credit rationing.

COMMISSIONER MACKINTOSH: You are not talking of differential rates?

PROFESSOR SMITH: No, we are not talking of differential rates.

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COMMISSIONER MACKINTOSH: You are not talking of differential rates?

PROFESSOR SMITH: No, we are not talking of differential rates.

COMMISSIONER MACKINTOSH: It is only occasionally, I would think, that restraining measures go to credit rationing, specific and systematic, and it is only in those circumstances, if at all, that you can exercise selective or, if you want to call it that, discriminatory action. I would not expect the incidence of this to be very frequent nor the effect of it to be very pronounced.

PROFESSOR SMITH: We are not saying it would be. All we are saying is that at appropriate times, when this seems reasonable, it should be done, but the advantages of doing it outweigh any disadvantages that we can see in the interests of the national economy.

COMMISSIONER LEMAN: On the British example you have cited, you have cited the instructions that were given, and I can easily think of a politician saying that -- "Apply the brakes but make sure you don't hurt the people who are not moving fast" -- but how does this work in practice? Is it controlable?

PROFESSOR SMITH: The point I was making is that the British accepted the prinviple.

COMMISSIONER LEMAN: Did it work in fact?

PROFESSOR SMITH: In fact, before it had a chance to work, the British decided the situation had changed and that they could relax the credit restrictions in the country as a whole, but I am just arguing that what we are advocating is not something unique. It has been done elsewhere.

MR. MANN: Mr. Chairman, this is a question about whether you apply new rules across the board in the

region, or that there are places within the region, such as Moncton, Saint John and Halifax that don't need this help, and this has been discussed by the APEC organization members who are business people from all over, and they recognize this, and this has been quite a subject of discussion at times, and while, of course, a person from, let us say, the North Shore does not feel that this should be, yet in principle people accept that the region should be treated as a region in this regard and that we would receive an over-all benefit.

THE CHAIRMAN: Well, can you say anything about this? You mentioned people on the North Shore were their conditions might be less affluent than those in the larger centres. To what extent does this monetary restriction really affect these areas? Doesn't it affect more drastically the central areas where a great deal of business is done?

MR. MANN: That is very true.

THE CHAIRMAN: So that the interest rate changes and restrictions on credit might not have so much impact upon a farming community who are pretty well settled and perhaps they are not borrowers?

PROFESSOR SMITH: But there is some evidence surely that a restrictive credit policy affects the small businesses more than the large. We have a preponderance of small business here and it is the low income areas where you would find the proportion of the poor credit risks to be higher surely. The poor credit risks would get the impact of a policy of

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credit restriction, the incidence is heavier.

THE CHAIRMAN: Is there any evidence of the extent to which credit policy affects the small businesses in the areas such as have been described in the North Shore area as an example?

PROFESSOR SMITH: It is very difficult to get these statistics. I will say at periods of credit restriction you do meet numerous businessmen and they say: "Look, this does not make any sense at all. People in my area are unemployed. I need a bank loan to cut so much pulpwood and I cannot get it". All one can say is that living here you meet people, a considerable number of businessmen who have felt that they have been adversely affected at times by credit restraint. As regard the statistical evidence we are unable to obtain it.

THE CHAIRMAN: From time to time we have heard the same sort of thing in Ontario where small business was affected at one stage but my recollection is that it was not the general credit restriction monetary policy so much as the type of situation which arose where the banks just told the people they were going to cut their credit in half or something of that kind. I think that changed. I am not quite sure what happened at that time. No doubt we will find out before we are through.

PROFESSOR SMITH: On a number of occasions when there was a lot of unemployment in the building industry here in Fredericton one of the banks stopped home improvement loans on account of credit restrictions as a whole. The banks said, "No more home improvement loans", despite the fact that there was considerable

unemployment in the building industry.

COMMISSIONER MACKINTOSH: You mentioned, Professor Smith, and laid some stress on the activities of the Industrial Development Bank. How far does it perform successfully some of the tests that you would hope would be performed by the government of Canada?

PROFESSOR SMITH: In recent years the Industrial Development Bank has opened new offices here and I would say where seven or eight years ago we got a lot of complaints about the Industrial Development Bank -- they were too cautious, it was very difficult to get money from them, there has been a definite change in recent years and the Industrial Development Bank has increased its loans in the region and its operations and is performing its particular role, I think, with increasing satisfaction. Mr. Mann, of course, comes from Halifax and has been more closely connected with the Bank in recent years than I have.

MR. MANN: Well, the Industrial Development Bank did not have an office here seven years ago. Any loans were administered from the Montreal office. Now, we have three offices in the Atlantic provinces and the volume of business has gained by at least six or eight fold.

Now, they have performed a special service for the smaller industry, the demand. They have supplanted to some extent the lending agencies which the government were operating, not completely. They have contributed a tremendous amount of useful knowledge and have demanded more competent management in these firms and

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while a man going for a loan to the Industrial Development Bank still feels that he is being asked in many instances for an awful lot to put up for what he is going to get he only has to have this for a short time and he will realize that the demands made upon him are so important that he is very happy that initially this happened.

COMMISSIONER MACKINTOSH: You mean he is asked for a great deal of information?

MR. MANN: Yes and he is asked to do his job in a more efficient way and the staff of the Bank make periodic calls on him and go through his plant, check his inventory and do all sorts of things which have been of inestimable help to the man who borrows from the Industrial Development Bank. But this has been done more on the smaller level. There have been some sizeable loans but more particularly the loans have been modest and as such they have been of great help.

THE CHAIRMAN: From your knowledge of the activity of that Bank would you say that the principles that they apply and this system that they follow in screening these loans and the conditions they attach and all the rest of it, that if that system were applied to larger loans or larger industry, the kind that you contemplate, that that would be a satisfactory medium?

MR. MANN: Well, that is the sort of extension, I think, that we are hoping for.

THE CHAIRMAN: If the sort of service that the Industrial Development Bank were rendering were

extended to the larger industries, these cornerstone industries, for instance, would that be an adequate medium for accomplishing the purposes that you have in mind?

MR. MANN: Well, I would like Professor Smith to say something in this regard.

PROFESSOR SMITH: I think it would be a halp but I do not think in itself it would be adequate to the development of the number of cornerstone industries that we need.

THE CHAIRMAN: Why not?

PROFESSOR SMITH: I think there may be times when you have to do a host of other things. For instance, the state might have to build a plant and rent it at a low rental to the firm. It might have to train the workers and there may be other times when perhaps you would need an outright grant.

THE CHAIRMAN: Well, if the time came to face that problem then perhaps we could condition ourselves to it but at the present time we have an organization that has had considerable experience over the past few years in advancing money to industries that otherwise could not raise money and it has had significant success because it has been careful and has so far proved successful on perhaps a smaller scale than you contemplate. If that scale were increased to take care of some of the larger industries that you contemplate would not that be a fairly safe and sensible step?

PROFESSOR SMITH: It would be. It would be certainly a big step forward but our opinion is that

it should be supplemented by other measures, that is all.

COMMISSIONER LEMAN: Well, we are getting a little confused here. At one point you were talking about fairly large scale industries and then you were talking about small businesses or relatively small businesses. The Industrial Development Bank was not set up to start a big steel complex, that is not its role. That is not the way the large industries should be started. But how about the private concerns? Is there any evidence that they have helped in this region such as private finance companies? We have a few acting in central Canada like the Charterhouse group, and the Trust companies have supplied small business capital.

PROFESSOR SMITH: Yes they have. Small capital has been raised for businesses but there are these large cornerstone industries that need large amounts of capital and for another thing, we think this would not be enough, you would have to do other sorts of things occasionally -- capital grants and training workers and expenditures on the social overhead capital that they need. I would think this would be a big step forward.

THE CHAIRMAN: There are other things besides those steps you have mentioned. There is management and these large industries that you contemplate are still in the idea stage. I have not heard yet whether there are any responsible entrepreneurs who have shown sufficient interest in any of these particular projects that are in mind who have attempted to figure out whether

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it might be a profitable enterprise for them or not. Has there been much exploration done as to the possibilities of these industries that you contemplate?

PROFESSOR SMITH: There has been very consider-able, very considerable.

THE CHAIRMAN: Have they been turned down and for what reason?

PROFESSOR SMITH: I would not want to go into specific circumstances. All I can say is that I can give you a number of instances that have come to my atten-tion where what one would call a cornerstone industry has been held up by inability to get adequate capital.

MR. MANN: I think, Mr. Chairman, yourquestion was very well pointed. It does not matter who does it as long as it is done as far as I am concerned. I did not envisage that the Industrial Development Bank were going to fulfill this need.

THE CHAIRMAN: Neither do we at the moment. I am just exploring, that is all. There must be some competent organization ...

MR. MANN: That is right.

THE CHAIRMAN: ... if your suggestion is adopted?

MR. MANN: That is right.

THE CHAIRMAN: And it must be an organization preferably consisting of men who have had some experience in this kind of thing?

MR. MANN: Oh, absolutely.

THE CHAIRMAN: And where do you find them?

MR. MANN: Right.

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THE CHAIRMAN: And where do you find them?

COMMISSIONER GIBSON: Your specific recommendation is that a fund be established by the government of Canada from which grants would be available to assist in the development of cornerstone plants etc., and so forth? Can you elaborate on this recommendation? First of all, what sort of a fund, who administers it?

PROFESSOR SMITH: We would think this fund should be set up by the government of Canada with a competent group of businessmen and economists on it.

COMMISSIONER GIBSON: Would they be mainly businessmen and economists in the Atlantic provinces?

PROFESSOR SMITH: The Atlantic provinces should be represented but I would not say they should be completely from the Atlantic provinces, no.

COMMISSIONER GIBSON: Would there be political representatives, Members of Parliament etc., on such an organization?

PROFESSOR SMITH: No, there would not. I would think it would want to be kept a non-political body.

COMMISSIONER GIBSON: Then the fund would have to receive very sizeable proportions of monies from the government of Canada, I take it?

PROFESSOR SMITH: It would, yes. It would be very difficult to start with an estimate of how much they would need initially but it would seem to me that such funds would be made available to them as would be clearly needed to fulfill the task they had.

COMMISSIONER GIBSON: You are thinking of this fund as being something to facilitate industrial

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COMMISSIONER GIBSON: You are thinking of [illegible]

development in the Atlantic provinces or anywhere in Canada?

PROFESSOR SMITH: No, we think purely in terms of the Atlantic provinces themselves. We consider we have the most serious growth problem in the nation. It might be that there are other areas of Canada where the national government and the provincial governments would consider a programme of cornerstone industries in the national interest. We are concerned with the Atlantic region and the two things we are concerned with are getting cornerstone industries and making the fund available to the provinces for the expansion of the industrial programme when it is necessary.

COMMISSIONER GIBSON: Then, you would have a group of people administering this fund and they would be businessmen, economists and not political people, you suggest?

PROFESSOR SMITH: Not political people, yes.

COMMISSIONER GIBSON: They would make recommendations or would they actually disperse funds and would they be advisory or the executive type of organization?

PROFESSOR SMITH: They would be essentially advisory. I would see them operating in this way: There would be a possibility of cornerstone industry in New Brunswick. It would come to the attention of the development authorities here. The amount of funds required and the assistance required would be clearly given to the representatives of the provincial government. The provincial government would decide what basket of incentive was needed to get this project underway and

the proposal would be made to this agency. They would study it, they would decide what aid was necessary and they would recommend this to the federal government.

COMMISSIONER GIBSON: So each project would be judged on its merits and the funds requested for that specific thing?

PROFESSOR SMITH: For that specific purpose, yes.

COMMISSIONER BROWN: What would be the attitude towards such a cornerstone industry which was in direct competition with an established industry which had not received these benefits?

PROFESSOR SMITH: Well, these are things that you would have to work out as the situation arose but if there were cornerstone industries catering mainly to world markets I would not see any problem. If one industry was just getting nicely by in the region catering to a regional market, getting another industry would not seem reasonable and this would be a factor that would be considered but most of them, as I say, would be export industries geared to world markets and I would not see any difficulty.

COMMISSIONER BROWN: Say you had a pulp and paper organization geared to world markets operating here now and just getting by on a profitable basis, would you then be in the position of recommending assistance to another such industry which would get all this public assistance when you had one already that had not had assistance?

PROFESSOR SMITH: Well, I think always it has

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PROFESSOR SMITH: Well, I think always it has

been found that this policy has been necessary for development. The British do it and it has been done elsewhere.

MR. MANN: I think I can answer this question because it really is not difficult. What happens is that the industry wants to establish from its contacts -- it makes contact with the government -- and the government of the province that it wishes to move into makes the decision as to whether or not it should be located and this decision is very easily taken from the presentation of the industry where their markets are, whether they are going to supplant a present organization. It is just like when Shora Kopperberg came into Nova Scotia, there was no problem that they were going to be able to sell their products. They assured us that they were and it was competent management who made this decision. I suggest this is not a big problem. It is thought to be a problem, especially on the lower level where you might find people making mattresses and when you start a mattress plant around centres where there are already mattress plants. You can easily resolve this.

COMMISSIONER LEMAN: Just the fact that its markets would be export markets does not necessarily solve Mr. Brown's problem. Let us imagine, for instance, that you found a nice nickel deposit in New Brunswick and then set up a major nickel smelter with federal assistance, you would run right up against that problem, wouldn't you, even though its markets are principally export?

PROFESSOR SMITH: Well, this would be a factor,

the fact that your new plant was competing with the existing nickel industry. This is a factor which would condition the decision of the agency as to whether they are going to help it or not and if they thought there was a market for it and if the world market was expanding rapidly enough to take this production why shouldn't they? I think in some industries a little competition would not do any harm, especially in the nickel industry. I think a little more capacity of nickel in this part of the world would be a jolly good thing.

COMMISSIONER BROWN: That might be so but I think there is considerable difficulty in suggesting federal subsidy to particular plants.

THE CHAIRMAN: As I understand it you are not suggesting so much a subsidy as the advancement of the essential capital to get the industry started and you contemplate that eventually the industry will become self-supporting?

COMMISSIONER BROWN: But you are talking about actual grants.

PROFESSOR SMITH: There are times when grants would be necessary and if the grants would be necessary to get something viable and in relation to the social costs involved, if you did not give the grant we would say that the grant would be justified. Grants do play a role in practically all the development policies of all the other countries.

MR. MANN: Mr. Chairman, the development of the Atlantic provinces since I have been with APEC and

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have returned here has always been a problem where everybody says: "Just what can you do?". It is this sort of question that we were faced with in the final analysis to say that you must have this massive injection of capital and you must have this board to decide on public and private works as an inhibitor to get things started.

PROFESSOR SMITH: What we are saying in essence is there is nothing unique in our situation in the Atlantic provinces in the economy of Canada. Practically every country has a situation like ours. Comprehensive policies have been a problem in other countries. I do not think they have been adequate in our country. This is what we are saying. We know there are complexities but this is fairly common.

THE CHAIRMAN: It is really, I suppose, nothing new in this country for governments of one form or another to give special concessions for the development of new industry either by tax concessions or something else. In Northern Ontario the mining tax is based upon net profit. The mine may have been carrying on for years and if it doesn't make a net profit it doesn't pay any tax, which is an indirect way of subsidizing it. The higher the profit the higher the percentage of mining tax, and that is not an unusual thing. There are many other ways too: Municipalities have been giving tax concessions to attract new industry. I think we heard yesterday that they do that here, which perhaps is not very satisfactory, but that is not unusual.

have returned here has always been a problem where everybody says: "Just what can you do?". It is this sort of question that we were faced with in the final analysis to say that you must have this massive injection of capital and you must have this board to decide on public and private works as an inhibitor to get things started.

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THE CHAIRMAN: It is really, I suppose, nothing new in this country for governments of one form or another to give special concessions for the development of new industry either by tax concessions [illegible] tax is based upon net profit. The mine may have been carrying on for years and if it doesn't make a net profit it doesn't pay any tax, which is an indirect way of subsidizing it. The higher the profit the higher the percentage of mining tax, and that is not an unusual thing. There are many other ways too: Municipalities have been giving tax concessions to attract new industry. I think we heard yesterday that they do that here, which perhaps is not very satisfactory, but that is not unusual.

PROFESSOR SMITH: I might say you touched on tax incentives. We didn't go into this in detail, but tax incentives do play a big role in other countries.

THE CHAIRMAN: Yes, but it is one way of accomplishing the thing -- perhaps not in as big a way as you have in mind.

COMMISSIONER GIBSON: I don't think anybody would question that from time to time the federal government does take direct action to facilitate the development of industry or transportation or other things. This is a difficult question to reach a decision on and varies with the times and circumstances and everything else.

I would like to ask a little more about your definite recommendations. You have got these two organizations -- these funds from which money will be available to assist cornerstone industries, and you have got this capital projects commission which is presumably to co-ordinate and recommend and provide funds or steer funds into public works which will facilitate the development of industry, presumably.

PROFESSOR SMITH: Into social overhead capital.

COMMISSIONER GIBSON: What are you thinking of -- roads and power ?

PROFESSOR SMITH: Roads, power -- I suppose roads and power are the very heart of social overhead capital which is relevant to industry.

COMMISSIONER GIBSON: It is tied right into cornerstone industries at times. You may need roads to

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develop them, and power. What is this capital projects commission? How do you set that up?

PROFESSOR SMITH: It would consist of a group of people who are knowledgeable about the relationship between social overhead capital and industrial gorwth.

COMMISSIONER GIBSON: Would this be an Atlantic provinces operation?

PROFESSOR SMITH: No, this would be federal -- both of these would be federal bodies with Atlantic representation. We are not suggesting all the representation would come from the Atlantic provinces. A province would have a social overhead capital project that was beyond its means and concerning which it thought the federal government should come in in the national interest, and it would make a proposal to it, and this capital projects commission would then advise that it be done or reject it on the grounds it was not necessary. For instance, if the Capital Projects Commission had been in existence at the time when we were considering here in New Brunswick the Beechwood project, this is the sort of thing that instead of going to Ottawa with our presentation and giving it to the Minister of Finance, there would be a specific body set up which you would appear before and all the evidence would be made available at a public hearing.

COMMISSONER GIBSON: In other words, these would only be for very large projects regarded as being sufficiently important to stimulate the whole area.

PROFESSOR SMITH: To stimulate the economy.

COMMISSIONER GIBSON: And somewhat beyond

the local resources?

PROFESSOR SMITH: Yes. Beechwood would be the sort of project.

COMMISSIONER BROWN: This would have avoided the pipeline debate; it is the same sort of thing?

PROFESSOR SMITH: Yes, that is right. We are saying these things are useful for the region. Whether they are useful for the country as a whole or not -- probably they would be -- but that is rather outside our terms of reference in the Council. We have got enough problems east of Montreal.

COMMISSIONER GIBSON: And this capital projects commission, you say these would be engineering people. They would have to have representatives of government on them -- the four Atlantic governments; the Department of Public Works, and if the government has to decide ---

PROFESSOR SMITH: Yes, you could have -- it would be extremely difficult for a provincial civil servant to sit on a body like this. Our thinking is that the people on the Capital Projects Commission would tend to have an engineering background. These are essentially engineering problems. People on the development fund would tend to have rather a different background -- businessmen and economists. This is why we differentiate between the two. It would be possible, I assume, to consolidate them both with a mixed board, but we were thinking in terms of the Capital Projects Commission being engineers; this is the sort of thing perhaps that an engineering background is best for rather than businessmen and commerce -- though perhaps we could get

Royal Commission on Banking and Finance

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Hearings held at

Fredericton

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Fredericton, New Brunswick,
May 15, 1962.

Honourable Dana Porter, L.L.D.,
Chairman, Royal Commission on Banking and Finance,
P.O. Box 1502, Station "B",
Ottawa, Canada.

Dear Sir:

I am pleased to submit herewith a brief outlining the views of the Government of New Brunswick with respect to its experience as a borrower in Canadian capital markets, and to the impact of the operations of such markets on the New Brunswick economy.

We have given a broad interpretation to the terms of reference of your Commission, and have emphasized the economic and financial requirements of the New Brunswick Government and the provincial economy within a national policy framework including both monetary and fiscal action. We have not, however, confined ourselves entirely to local problems.

The New Brunswick Government considers the problems confronting your Commission to be extremely important, and wishes you and your colleagues well in your attempt to find solutions.

Yours sincerely,

L.G. DesBrisay,
Minister of Finance.

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I INTRODUCTION

1. It is not only a pleasure and an honour to appear, on behalf of the Province of New Brunswick, before this Royal Commission; it is as well a very great responsibility since this Commission's task is among the most important of any such body in the post-war period. It is our view that such an enquiry into the operations of this country's financial structure is long overdue, and could not come at a more appropriate time in the history of this country. Since the MacMillan enquiry in the early 1930's, this country has experienced a major depression, a prolonged period of intensive warfare, and several post-war recessions interspersed with periods of relatively rapid economic expansion. In recent years this expansion, in real terms, has been not only modest but nearly negligible, and with the impending challenge of an increasingly competitive international trading environment, it is imperative that intensive consideration be given to the role which Canada's financial structure and policies shall play in helping the nation to meet this challenge. During this same period there have also been striking social changes both in ideas and attitudes which have significant implications for our financial system.

2. There are obvious precedents for such an examination. The Select Committee on the working of the Monetary System in Great Britain, and the Commission on Money and Credit in the United States have each made useful contributions in the financial

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field. They have as well served to focus widespread attention on the conduct of financial and monetary affairs on both the national and international level. These enquiries have also served to stimulate interest and critical analysis of the operations of our own banking system, but rather than providing us with answers have served to emphasize the necessity for an enquiry of our own.

3. In this respect, it is our expressed hope that the Royal Commission on Banking and Finance will interpret its terms of reference in the broadest possible sense. The organizational and structural examination of the MacMillan Commission may well have been adequate for its time, but at this stage the major requirement is for a searching examination of the monetary and economic effects of the financial structure, with emphasis on the types of policies required to serve the needs of the country. In our view, it would be both unrealistic and unrewarding to adopt the view of the Radcliffe Committee that an evaluation of other methods of influencing aggregate demand are beyond the scope of your enquiry.

4. In attempting to determine the responsibility of the Province with respect to its submission to the Royal Commission on Banking and Finance, we have come to two major conclusions. First, as a borrower the Province has a very real concern in the financial structure of the nation and in the policies and practices which affect it. Accordingly, we have outlined our policies and experiences in this field, along with

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problems encountered and some suggestions which we believe necessary for improvement.

5. Secondly, because the Province and its people are exposed to, and affected by, the economic repercussions of the operations of the financial system, we feel it our duty to be concerned with the impact of financial and banking practises on the New Brunswick economy. Clearly, this latter concern involves the determination of the regional impact of financial operations which are essentially national in both character and application. In doing so, we have been hampered by the lack of information, particularly with respect to regional flows of funds, and by the lack of facilities to conduct major pieces of economic research.

6. Nevertheless we, along with the other three Atlantic Provinces, have had the benefit of a study by Professor A.K. Cairncross of Glasgow University, and are submitting this in the form of an unattached appendix to our brief. In addition, we feel we are in a position to make reasonable judgments pertaining to some aspects of monetary policy, and to suggest areas where we believe that intensive study by the Royal Commission would be worthwhile.

7. In both the above-mentioned categories, we have stressed the need for a financial system to fully reflect the social and economic requirements of the province and the country. It follows therefore, that our interpretation of the Commission's terms of reference has been a broad one, and we hope the Commission will

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agree with this. Particularly, we emphasize the relationship between monetary and fiscal policies, as both alternatives and substitutes for one another. This approach inevitably involves us in questions of political philosophy and judgment which cannot be based on statistical analysis, but are nonetheless relevant to any examination of the adequacy of the financial structure and policies.

8. The New Brunswick submission then is divided broadly into two parts; the first considers the Government and some other bodies as borrowers in the capital markets; while the second deals with the economic impact of the operations of such markets. In both these sections suggestions are made for certain structural alterations which appear to be both logical and feasible.

II FINANCING PROVINCIAL GOVERNMENT REQUIREMENTS

9. As the Commission has expressed interest in the experience of the Government of New Brunswick as a borrower in the capital market, the practises and policies of the Government will be outlined. In addition, judgments based on this experience will be put forth in the form of recommendations which, we believe would greatly assist the Province in meeting its financial requirements.

10. However, the financing requirements of any so-called "junior" government must be considered on a broader basis than merely its annual requirement

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from the bond market. For, in fact, government borrowing is directly related to both government spending and government taxation, with borrowing requirements being determined by spending and taxing policies. As a result, each of these spheres is important in any consideration of government financing, both in the present, and particularly in the future.

Government Spending

11. Like all the junior levels of government, overall financial needs have increased dramatically in the post-war period. This has resulted largely from the combination of three factors, each tending towards higher levels of government spending. First, those responsibilities allocated to junior levels of government have been more susceptible to the large increases in population and price levels which have occurred. This has resulted in continuously rising expenditure levels, even without the expansion of services into new areas. Secondly, the involvement of the Federal Government at the national level in areas previously considered the responsibility of the provinces, has added considerable impetus to the development of new and/or expanded programmes geared to national needs. This has resulted, primarily in the health and welfare fields, in a proliferation of national programmes on a shared-cost basis, which now bulk large in all provincial budgets. The third factor is not unrelated to the first two, and involves essentially a rising demand on the part of Canadians for both more extensive

Government services and services of higher quality. Although this factor is strongly felt in the fields of health, welfare and education, it has been especially reflected in New Brunswick by a greater acceptance by all administrations of the need for increased efforts in the field of economic and industrial development.

12. It would be reasonable to expect that these same factors have been operative in most provinces, but the degree to which any government responds to such stimuli is a measure of not only its political philosophy, but the resources available to it. In this regard, New Brunswick has not attempted to provide levels of services higher than the prevailing "national" levels, and has in many cases a very difficult task in meeting these. Neither has the province attempted to lead the way in the development of the welfare state. The basic, if somewhat general, objective in this province is to provide to New Brunswick both the quality and quantity of services which, as Canadians, they have a right to expect.

13. It is, therefore, the question of available resources which must be answered in determining the degree to which the growing requirements of government can be met. In this context, there are only two alternatives once the demand is assumed to be effective:- to tax or borrow.

<u>Government Taxation</u>

14. As spending requirements rose in the post-war period, both the Province and its municipalities increased

levels of taxation accordingly, but not proportionately. As the following section indicates, both levels of Government were forced to rely to a greater extent on borrowing to meet rising annual cash requirements. It is felt that neither government had much discretion in this situation, since taxation levels relative to income can be raised only so far. Nonetheless, significant attempts were made to acquire more tax revenue; the Province became one of the first provinces to impose a sales tax, other taxes were among the highest in Canada, and the municipalities, along with higher property taxes adopted a proliferation of poll, occupancy and motor vehicle taxes rarely used elsewhere in the country.

15. As a result, the combined incidence of municipal and provincial taxation is among the highest in Canada. An index developed to measure this burden for the period 1956-58 (See Appendix A) indicates only one province in Canada had a greater portion of its personal income absorbed by municipal and provincial taxation. If qualitative considerations could be reflected in such a formula, this tax differential would undoubtedly be consideratly greater. For example, the one province (Saskatchewan) with an index of tax burden higher than New Brunswick for the period in question, received some tax revenues to finance services substantially in excess of those offered in this province.

16. The strategic variables in the field of taxation are essentially two in number:- the effective

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rates of tax and the level of income to which such rates are applied. In New Brunswick, tax rates are among the highest and personal income per capita is the third lowest in Canada. This combination points up the fact that the taxing potential of New Brunswick governments is extremely limited -- limited because of the extremely low yields of most taxes. For example, the yield per capita from the personal and corporate income taxes and succession duties in New Brunswick is the third lowest in Canada and equal to approximately half the national average. Furthermore, the application of high tax rates to such a narrow tax base inevitably brings a government face to face with the law of diminishing returns -- a situation now confronting the Government of New Brunswick in some tax areas.

Government Borrowing

17. Given a situation whereby financial requirements are rising along with a diminishing tax potential, the inevitable result has been an increase in Government borrowing at all levels. At the Provincial level, the annual new borrowing requirement rose from an average of 6½ per cent of total ordinary and capital expenditures in 1952 and 53 to an average of 10.7 per cent in 1959 and 1960. Although precise statistics are not available for municipalities, it is estimated that the same trend, but more pronounced, is operating at that level. Furthermore, it appears that this trend towards heavier borrowing is not likely to be reversed. Rather, it is quite probable that government capital require-

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ments will increase even more rapidly in years to come.

18. On the whole, however, the New Brunswick experience in capital markets during the past decade has been quite satisfactory. As Appendix A indicates, the Government obtained over 195 million dollars in this period, with slightly over 40 per cent of this amount being borrowed for the N.B.E.P.C.[1] For the greater part of this period, it has been Government policy to deal with a syndicate representing a substantial number of national investment houses, but in recent years the competitive tender call has been used successfully. The Province has, as well, dealt privately with two and sometimes three syndicates on a highly competitive basis.

19. While the Province has used all three types of borrowing arrangements, it is difficult to be dogmatic in terms of any particular one. Theoretically, as a government we would prefer to call for public tender on all issues, and let our prices be the result of the interplay of competitive forces. However, we have found that the market is an imperfect market, and that under certain conditions competitive bids do not really bring the lowest ultimate prices, depending

[1] These amounts exclude an eight-year Treasury Bill for 29.5 million dollars held by the Government of Canada, and a two-year loan of 20,000,000 Swiss Francs, both of which have been or are being refunded.

upon the nature of the bidder, his power in the market and the nature of the market itself.

20. Consequently, in certain types of market there are advantages to the fiscal agent or syndicate arrangement, particularly when the annual requirement from the market is large, and there is some possibility that a quantity of bonds might "hang" on the market. In other cases, an issue can be more or less tailored to suit the requirements of a particular customer or customers, and a private placement would therefore be most appropriate.

21. Generally, the Province's annual borrowing requirement consists of refunding plus that portion of its capital spending programme which it cannot, or does not, wish to finance from current revenues. In this latter respect the normal practice is not to borrow unless the expenditure has the effect of increasing the productivity of the economy in the long run, or is of a self-liquidating nature. Prior to December 31, 1960 the Province conducted all long-term borrowing for the New Brunswick Electric Power Commission, and the annual requirement for this purpose was based on refunding schedules and on the requirements consistent with the Commission's development of capital facilities and were timed accordingly.

22. Upon determining its annual capital requirement, advice from syndicate managers, the chartered banks and investment dealers has normally been sought as regards the timing of the issue or issues, the market to be entered and other relevant considerations. The Government

as well forms its own judgments in these matters, and the principal criteria involved have been the magnitude of the annual requirement, the requirements and timing of other provincial issues, and the expectations regarding short-term movements in interest rates. No attempt has been made to speculate on the movement of interest rates for periods of more than a few months, and in many cases the importance of <u>availability</u> of funds has been the over-riding consideration.

23. From the appendices it is evident that a substantial portion -- nearly 20 per cent -- of Provincial borrowing over the past decade was undertaken in the United States market. Although the bulk of this was for the New Brunswick Electric Power Commission, the availability of this market has been, and is, of considerable importance to the Province. Initially, the Province wished to cultivate the American market in order to develop a broader market for provincial borrowing -- a market to be exploited as conditions in the Canadian market indicated. Accordingly, over the years the Province registered with the Securities Exchange Commission, developed the Savings Bank Market and in 1957 was successful in having its Moody's bond rating raised to a more satisfactory level.

24. In most cases the American market has been exploited on the basis of a judgment of the best net cost to the Province after considering the relationship between Canadian and United States interest rate levels and the relative value of the Canadian dollar. To

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make such a judgment involves some rather uneasy assumptions, but nonetheless certain rules of thumb were developed which indicated the degree of exchange fluctuation which could be absorbed by a given interest rate differential. This procedure implicitly entailed a judgment of the probable values of the Canadian dollar over the life of the bond issue. Despite this, the risks of such borrowing are very great, and recent events have born this out.

25. The only calculation of a potential borrower can make are those related to the projected development of present trends. It is impossible to foresee the course which national government policy will follow, or to consider its effect on the cost of such borrowing. In our experience the artificial hazards are more significant than so-called "natural" ones. The increase in the withholding tax and the devaluation of the Canadian dollar have both had the effect of increasing the cost and restricting the availability of United States funds.

26. In terms of duration, the bulk of Provincial borrowing has been long-term in nature. Over 80 per cent of such issues have maturities in excess of 9 years; some 10 per cent maturities of five years, and the remaineder, a maturity of less than three years. In addition, the Province does a considerable, but varying, volume of borrowing by way of bank overdraft to meet short-term cash requirements. The Province does not issue Treasury Bills (except for the 8 year Bill held by the Government of Canada for

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financing the Beechwood Power Project), nor has it entered the so-called "savings bond" field.

27. Obviously, much consideration has been given these possibilities, -- particularly the question of the issue of demand paper or parity bonds. While attracted by the annual sales of such Federal bonds in New Brunswick and by the amounts raised by some other provinces, we have been deterred by two major considerations, about which there is insufficient data to permit more than a guess:-

(1) the degree to which annual redemption rates would fluctuate and the extent to which the Province's ability to meet such fluctuations would be affected by Federal and chartered bank policies.

(2) the extent to which Provincial entry into this field would affect the ability of municipalities to meet their borrowing requirements. This is most important since it is estimated that over 90 per cent of municipal offerings are sold within the Province.

Furthermore, since the Federal Government have, at least temporarily,vacated the long-term bond market in favour of the provinces, we have been inclined towards the view that it might not be appropriate for the Province to compete with them in the short-term market.

28. The other unknowns in this regard, such as the amount available or the interest rates attached to obtaining it, will yield an acceptable judgment,

Financing the Beechwood Power Project), nor has it [illegible]

27. Obviously, much consideration has been given these possibilities -- particularly the question of the issue of demand paper or parity bonds. While attracted by the annual sales of such Federal bonds in New Brunswick and by the amounts raised by some other provinces, we have been deterred by two major considerations, about which there is insufficient data to permit more than a guess:-

(1) the degree to which annual redemption rates would fluctuate and the extent to which the Province's ability to meet such fluctuations would be affected by Federal and chartered bank policies.

(2) the extent to which Provincial entry into this field would affect the ability of municipalities to meet their borrowing requirements. This is most important since it is estimated that over 90 per cent of municipal offerings are sold within the Province.

Furthermore, since the Federal Government have, at least temporarily, vacated the long-term bond market in favour of the provinces, we have been inclined towards the view that it might not be appropriate for the Province to compete with them in the short-term market.

28. The other unknowns in this regard, such as the amount available or the interest rates attached to obtaining it, will yield an acceptable judgment,

but we have no satisfactory answers to the two questions raised above. As a result, the Province is not as yet prepared to enter the field.

29. In the course of such borrowing, the experience of the Province of New Brunswick points to several conclusions, aside from the major fact that borrowing costs are excessive. First, borrowing is more or less a residual resulting from the relationship between spending and taxing, and as such is tending to grow but on a sporadic basis. Thus, decisions to borrow can be greatly affected by not only provincial, but national, decisions related to government spending and taxation. Our recommendations will be framed within this context.

20. Secondly, we have found the United States market to be important to us, not merely from the cost of money viewpoint, but from the point of view of availability. The Canadian capital markets tend to form judgments about the limits of Provincial borrowing in any given year, and we have found it useful to be able to fall back on the American market in years when our needs have exceeded such "limits". Furthermore, it is imperative that some such alternative be available in cases where the Canadian market is either unable or unwilling to meet all the needs of the Province. It is very easy to conclude that funds are always available if you're willing to pay the cost; however, in the period following the Conversion Loan operation the province, after consultation with investment people, formed the

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judgment that the Canadian market would rather not meet its needs. We were not any happier, because we knew that an issue at 8 or 10 per cent would be acceptable.

31. Thirdly, and following from the above; -- the Province has always been able to obtain its required capital, but with the United States market not available, it is difficult to expect that this will always be the case. Including, Crown Corporations and municipalities, it is not difficult to foresee a large increase in provincial borrowing, when combined with increasing national demand, producing a result whereby the Province would have great difficulty in entering the market. Such a situation would necessitate some form of Federal aid to provincial borrowing, and recommendations will be made in this connection. And finally, we have a number of observations to make with respect to problems involving the institutional structure of the capital market. These, however, will be presented in a later section of the brief.

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32. This combination of a rising pattern of expenditures and a restricted tax base point to increasingly heavier reliance on borrowing to meet provincial financial requirements. In turn, this will produce higher borrowing costs which add further to the strain on revenues and increase the pressure for additional borrowing. At some level there is undoubtedly a borrowing saturation limit, with the ultimate restriction of provincial services.

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33. Clearly, solutions to this dilemma lie more in the area of fiscal than in monetary policy, but they are felt to be relevant to the considerations of the Royal Commission on Banking and Finance. Essentially, to assist the province in meeting the financial requirements necessary to provide average Canadian levels of services, involves in our view solutions on two fronts. One designed to improve the economy of the Province over the years; and the other, to enable the Provincial Government to maintain an appropriate level and quality of services until such improvement is achieved. The only alternative to this is continued retardation leading to the economic and cultural disappearance of the Province as a part of Canada.

34. Although such a financial solution may not directly involve monetary policy, the effect of the principles implied therein have important implications for the entire financial structure of Canada. Aside from the broader economic policies discussed later, it is our view that assistance must be forthcoming from the Federal level to enable the provinces to cope with the responsibilities allocated to them. In this respect Federal fiscal policy would become a substitute for monetary policy by increasing the flow of funds to the provinces in any one of several ways

35. As an alternative to assisting the provinces in meeting their borrowing requirements by loans, grants, subsidies or, as it now does, by staying out of the long-term bond market, the Federal Government

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might well consider the possibility of reducing provincial borrowing requirements by reducing provincial spending requirements. If provincial borrowing has significant effects on capital markets, it is only as a reflection of the level of provincial spending. Such an objective could be met by a re-allocation of taxation powers, or a wide variety of techniques.

36. With regard to the latter, it is our view that the time has come for a searching study of the role that Federally developed shared-cost programmes play in determining the rates of growth in provincial spending. However real is the need for many such programmes, the ability of the junior government to finance its share must be given full weight. In this connection, we have found that such programmes suffer from four major defects:

(1) There is no, or little, attempt to consider the different fiscal capacities of the provinces, or the relative needs of the provinces in relation to particular services. At present any programme based on equal per capita payments or percentage of total cost means normally that the New Brunswick share will be financed only with a heavier burden of taxation (or potential borrowing requirement).

(2) Existing programmes of this type are heavily biased towards health and welfare services. However great the need in this area, this practice very much restricts the

ability of the province to allocate funds for industrial and economic development purposes of important long-term significance. This is particularly so in the case of Federally designed "crash" programmes -- which expire in a relatively short period of time. These, in effect result in a scramble for funds, often resulting in poor planning and the diversion of funds from other long-term, worthwhile programmes.

(3) In the case of most such programmes the provinces are forced to finance the Federal share of the cost, sometimes for very long periods. This has important effects on provincial short-term borrowing requirements.

(4) From the provincial point of view, there is too little flexibility, both as regards selection between various shared-cost programmes and with respect to the speed with which individual programmes are developed. Without the advantage of an "average" fiscal capacity, we have found it difficult to participate in many programmes with "average" speed.

37. In view of the degree to which such programmes bulk large in the Province's spending programme, it is recommended that the Commission examine their implications for provincial taxing and borrowing. More specifically, it is suggested that the principle of fiscal need be built into such programmes, that the

province be given the unprejudiced ability to elect between programmes, and be allowed greater participation in the planning and timing of such programmes. Furthermore, in our experience the nature of Federal administrative controls on such programmes seriously interferes and influences the way in which Provincial programmes are developed. This is an untenable situation and we strongly recommend that it be corrected. In making such recommendations it should be emphasized that the Province of New Brunswick is not critical of the principle of such joint spending programmes. On the contrary, they have been instrumental in providing the people of the Province with services otherwise unobtainable, and have become an important part of Federal-Provincial fiscal relationships. What is suggested, however, is that they be designed to better meet Provincial requirements. Particularly, there is an urgent need for such programmes in the field of economic development -- programmes tailored to the requirements of the less developed regions of Canada.

38. With respect to Government borrowing specifically, it has been our experience that under normal conditions the existing financial system has been able to meet the needs of the Province. Obviously, we would subscribe to any methods designed to reduce the costs of provincial borrowing, and a number of these have already been suggested to the Commission. However, it is our view that given an adequate reflection of relative fiscal needs in Federal fiscal policies, and

some reorientation of Federal spending emphasis, then no such permanent borrowing assistance will be necessary. It is felt that this would be the most desirable and most effective method of diverting national savings into provincial spending programmes.

39. This position does not, however, preclude the possibility of some form of short-term assistance to be made available from time to time as circumstances warrant. We would suggest that such assistance might take two forms. First, it should be possible for the Federal Government to develop sufficient flexibility in its financial policies to permit certain borrowers to be sheltered from their effects. We can see no great need for all such policies to be "national" in character. Such selectivity would be particularly important in times of rising interest rates; and, secondly, could be supported with other measures aimed at providing short-term borrowing assistance to borrowers of either weak market power or adversely affected by some unrelated national financial policy. For example, some of the Government Funds could be opened up for limited purchases of provincial or municipal bonds in times of extremely high cost or limited availability of funds.

40. These suggestions are designed to aid for limited periods only those borrowers who experience difficulty in the market or for whom the cost of such borrowing would be unduly excessive. The difficulties inherent in determining who would receive assistance, when and for what period are recognized, but it is

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suggested that the Bank of Canada might well be able to develop the necessary rules of thumb. It is therefore recommended that the Royal Commission carefully examine this possibility.

41. An additional problem which the Province has experienced involves the scarcity of information pertaining to the activities of both the Government of Canada and The Bank of Canada. A clearer indication of the Central Bank's attitude towards current situations would be most helpful to the Province in determining its own borrowing and spending policies. The same applies to the Federal Government and, subject to some limitations, it should be possible to keep the provinces informed as to the probable course of Federal policy, particularly in the fiscal and economic field. From the point of view of provincial financing these suggestions call for a much closer relationship between the Federal Government and Bank of Canada on the one hand, and the province and their municipalities on the other. Many of the provinces are not equipped to make the precise judgments necessary for sound and efficient financial policies, and both the Federal Government and the Bank of Canada should play a leading role in assisting in this respect.

42. There have been suggestions in this direction which would establish a central co-ordinating body (possibly the Bank of Canada) for both Federal and provincial borrowing policies. This concept would, if extended to government investment programming, provide

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the machinery to promote co-ordinated economic planning, which would be particularly useful in developing counter-cyclical spending programmes. With the aggregate importance of junior governments, such co-ordinated activities would seem essential. We therefore recommend that the Commission explore the possibility of establishing such machinery for co-ordinated borrowing and investment.

43. Finally, the rapid increase in the demand for the nation's savings since World War II, not only from provincial governments, but from the Federal Government, public utilities, municipalities and from the private sector, has cut deeply into the nation's savings. How deeply is a question open to debate, but the competition for funds has become more intense. In this regard it has been our experience that the Canadian market has not always been adequate to meet the demand, and thus some alternative was necessary.

44. It is understood that the Royal Commission will undertake a study to determine the adequacy of Canadian savings relative to domestic demand. It is suggested that any such study give careful consideration to the need for having the United States market available, at least to certain classes of borrowers.

Effects of Monetary Policy on Government Financing

45. The preceding section indicated that the ease with which the Province obtained funds from capital markets has varied from time to time. The

municipalities have had similar experience, and to the extent that such market changes have been the result of monetary policy, both levels of government have been affected by it. These effects can take a number of forms -- higher borrowing costs, reduced availability of funds, etc. -- when monetary policies of restraint are in effect, and the opposite under conditions of monetary ease. Insofar as the effects of such policies on Government financing are concerned, it is with conditions of restraint that this section is concerned.

Provincial Government

46. A policy of monetary restraint aimed at reducing or restricting aggregate demand can achieve this effect on Government spending only to the extent that the Government is a user or potential user of borrowed funds. However, it is important to differentiate between the effect of such a policy on borrowing and the effect on spending. In many cases the higher costs of borrowing are not a major consideration in decisions to spend. In the development of electric power generating capacity, the main factor is to develop additional plant in pace with increases in demand. Monetary policy cannot affect the decision to spend, but it has in New Brunswick been a factor in related decisions. The prospect of shrinking availability and high cost of funds has affected the timing and nature of the borrowing to finance such non-discretionary expenditures. In addition, it may

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well affect decisions as to the type of expenditure -- possibly to avoid highly capital intensive projects. On balance, however, these types of expenditures are unaffected by monetary policy unless a policy of restraint is pursued to the point where funds are unavailable at any price.

47. In such periods of credit restriction the Province has found that its borrowing limits tend to shrink. It is our view that this undoubtedly happens to most provincial borrowers, because of institutional portfolio policies which tend to limit funds available for investment in government paper. To this can be added the fact that New Brunswick bonds suffer from the disadvantage of being less well known than those of many other borrowers, and represent an area with less than national average rates of economic growth. It is difficult to judge precisely the degree to which these factors become operative as the demand for funds intensifies, but it is only logical to assume that they are factors.

48. Such a shrinkage of borrowing potential has had no apparent impact on the level of spending in non-discretionary fields, but may well have had the effect of deferring some spending in capital programmes where such decisions could be made. This, however, is a small portion of total government spending. Nonetheless, there has been an impact on Government financial operations in two other ways. First, if a shrinkage of borrowing potential occurs in the Canadian market, the Province, being uncertain

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of its ability to obtain required funds, may be (and has been) forced somewhat prematurely into sources of borrowed funds where the potential is still high. The obvious outlet in the past has been the United States market, and the risks associated with it.

49. In addition there are other alternatives when such shrinkage occurs. We have noticed that in such periods there is a greater tendency to judge the merits of capital programme expansion, using the availability of Federal funds as the main criterion. As a result, when the availability of funds to a province is reduced, through credit restrictive policies, the main effect is to increase provincial borrowing costs and risks, and also to influence the nature of capital spending. There are no discernible effects on the aggregate level of spending itself. In certain cases, this spending has been reduced by indirect impact through Provincial-Municipal shared-cost programmes, of municipal inability to obtain funds.

Municipal Governments

50. Many of the same considerations are involved in assessing the impact of monetary policy on the Province's municipalities. However, given the smaller size of municiial borrowers and the increased marginality of their borrowing, it is conceivable that the effect of credit restriction would be more sharply felt. The increases in borrowing costs are less easily absorbed at the municipal level, with the result that the timing of many expenditures is greatly

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affected.

51. As has been indicated, the great majority of municipal bonds are sold within the province, and mostly without the benefit of a Provincial guarantee. The Province does, however, assist municipal bodies in obtaining their borrowing requirements in three specific ways. First, by providing a Provincial guarantee for certain types of borrowing; secondly, by purchasing portions of municipal bond issues for placement in Government trust and sinking funds; and thirdly, by co-ordinating municipal borrowing and providing information and assistance in the direction of developing sound marketing policies. The first two policies are implemented largely on the basis of need, with the Province forming a judgment as to the portion of bond issue it need purchase to keep the market firm. The same approach is applied, apart from School Board borrowing, to Municipal requests for the Provincial guarantee. It is felt that these techniques assist the municipalities in obtaining money at slightly less cost that would otherwise be the case.

52. The Province's involvement has, therefore, provided it with some means, however general, of developing a judgment as to the effects of credit restrictions on municipal borrowing. For example, in the period following the 1958 Conversion Loan the money supply was not permitted to expand and, in fact, by March, 1960 was somewhat lower than the level prevailing in August of 1958. Consequently, interest rates rose rapidly and many municipalities complained of difficulties

in the market. Although the statistics are somewhat lacking in precision, it is estimated that during this period Provincial Government purchases of municipal bonds increased substantially; by 10 per cent by 31 March, 1959 and by another 10 per cent by 31 March, 1960. During this same period the annual rate of increase in municipal debt outstanding declined markedly. In other words, New Brunswick municipalities were reacting to the "credit squeeze" by reducing their annual capital requirements, and at the same time the Provincial Government was increasing slightly its rate of municipal bond purchases.

53. It seems reasonable to conclude that both provincial and municipal governments experience increases in costs and reductions in the availability of funds as a result of policies of national credit restraint. Associated with such effects are the less dramatic, but possibly more relevant, effects on the allocation of resources. The Province, in the face of such effects, is forced into other markets, which are not usually available to most New Brunswick municipalities. As a result, many municipal projects of a worthwhile nature are deferred, until periods of cheaper money, or possibly forever. This can only be considered as a desirable consequence of monetary policy when compared with other projects which are relatively unaffected.

54. This raises the question of the need for a more selective approach to the implementation of monetary policy -- either through the Bank of Canada

or the Department of Finance. In the previous section of this brief suggestions were made in this regard in order to provide short-term financing assistance to the provinces. These same principles apply in the case of municipalities as well, although different techniques may be required. In our view, the question of ensuring the flow of a satisfactory volume of funds from the capital markets to the municipalities can be examined in three ways.

55. First, municipal bond issues could be made more attractive to investors, but some form of Federal subsidy, or artificial markets could be created by Federal regulation or by bond purchases. Secondly, existing markets could be broadened either by altering the practices of existing institutions or creating new ones. This would undoubtedly reduce funds available to other borrowers, some of whom would be forced to either exploit different markets or different financing techniques. And finally, as in the case of the provinces, there are solutions aimed at reducing the borrowing needs of the municipalities by increasing tax revenues available to them or by reallocating spending responsibilities.

56. It is our view that such solutions as envisaged by the first two approaches are not a real necessity in New Brunswick at the present time. The local market, under normal conditions, has been able to absorb the bulk of municipal demands with little difficulty. However, with the continuation of prevailing revenue and expenditure growth patterns,

it is likely that the local market will be insufficient for this purpose before too long. In that event some municipalities, particularly the smaller ones, would experience difficulties never before encountered.

57. Rather than see some form of permanent interest rate subsidy which would be non-discriminating, or the development of a municipal borrowing pooling system, we would be inclined to meet such a problem through the judicious use of the Government guarantee; at least in the initial stages. We do however believe that the development of a more active market for municipal bonds would be most helpful, but a system of subsidies to achieve this should go hand in hand with some form of regulation of municipal borrowing.

58. However, in regard to such solutions there are two pressing issues which must be examined -- the degree to which the capital markets are adequate to meet total borrowing requirements, and the extent to which selective controls are desirable. In the first, if study indicates that national savings are sufficient to meet aggregate requirements, then borrowing assistance on an interim basis is all that is necessary. If this is not the case, then a major reallocation of this market in relation to all borrowers will be necessary. In this respect, we would prefer to see those governments with the more limited taxing powers make fewer demands on the market, rather than have their demands met by some artificial restructuring of the price mechanism. This implies that inter-governmental transfers would be increased as they flow

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from senior to more junior levels of government; or, that spending responsibilities would be transferred from junior to more senior levels of government.

59. The second issue bears heavily on the question of the differential effect of monetary policy on the process of capital accumulation as between social and industrial capital. For certain classes of borrowers, the lending processes have most uneven effects, which are more than merely of financial importance. We have not been able to agree with the view of the Bank of Canada that -

> "There is no way open to it (i.e. the central bank) to have a special monetary policy for particular classes of borrowers, particular industries, or particular geographical areas. Such selective action or discrimination lies beyond the scope of monetary policy," or that "It is not possible for monetary policy to operate differentially under our present statutes and banking arrangements."

60. Such suggestions that monetary policy is an impartial and non-discriminating means of controlling effective demand have not stood up to investigation. There are undoubtedly discriminatory effects, and in fact are supposed to be if monetary policy is to be reasonably effective. The question is whether such effects should be intentional or otherwise. It is our view that by the use of selective controls many of the adverse effects of credit rationing could be

avoided. Specifically, the recommendations made in the first portion of this submission may well be helpful, as well as the alternatives outlined earlier in this section. In essence, however, we have not been able to undertake the research necessary to enable a precise view to be formed as to specific techniques which would shelter municipal spending from the effects of credit restriction.

61. Insofar as Provincial borrowing is concerned, it appears that on balance the main effect of monetary policy is to alter borrowing costs without affecting the level of demand significantly. In view of this fact, and considering the great doubts as to the real effectiveness of monetary policy in controlling aggregate demand, the consequent real increase in social capital costs relative to costs in the private sector seems both unnecessary and undesirable. This raises questions of the desirable mix between fiscal and monetary policy -- an issue discussed in the following section.

III ECONOMIC IMPLICATIONS OF FINANCING POLICIES

62. As a borrower in Canadian capital markets the New Brunswick government is concerned with the availability and price of sufficient funds to meet its borrowing requirements, and with the effect that both institutional and government policies have on its borrowing operations. However, given the responsibilities of the Government to the people of New Brunswick and its responsibility in the field of economic policy, the Government is also concerned about the aggregate implications of such financial policies on the economy of the Province, and on its growth potential. In this sphere, any assessment of the adequacy of such policies to meet the economic requirements of New Brunswick inevitably entails consideration of both fiscal and monetary areas of action. This section will therefore deal with the economic requirements of the provincial economy, the role that monetary and fiscal policies should play in meeting these requirements, the relationship between such policies, and the effects which these policies have had on the economy of the Province.

63. Although it is not intended that New Brunswick should speak for the entire Atlantic Region, it should be pointed out that much of this analysis is based on a study by Professor A.K. Cairncross, which was prepared for the Premiers of the four Atlantic Provinces. Furthermore, much of this section is based on statistical data available from numerous

sources, but most readily from the research series sponsored by the Atlantic Provinces Research Board. This mass of statistical detail has not been included, but could be made readily available to the Commission.

64. Generally, this section of our submission emphasizes three major themes, which form a framework within which our recommendations are made.

65. First, the problem of retarded economic growth in New Brunswick and other similar areas of Canada is a national problem requiring Federal attention and spending if solutions are to be found. Second, no single measure, either fiscal or monetary, on the part of Government can hope, by itself, to overcome the forces impeding development. It is likely that the whole range of fiscal and monetary policies must be brought into play. It is clear that this can only be achieved through co-ordinated planning both at the Federal level itself and between the Government of Canada and the provinces. Third, in the absence of Federal Government acceptance of such responsibility in promoting balanced economic growth in Canada, and if the required co-operation and co-ordination is not achieved, then it is difficult to envisage changes in the Canadian financial system which would make any significant contribution to meeting the requirements of the New Brunswick economy.

The New Brunswick Economy

66. An understanding of the main economic forces operating in the New Brunswick economy is necessary

sources, but most readily from the research series sponsored by the Atlantic Provinces Research Board. This mass of statistical detail has not been included, but could be made readily available to the Commission.

64. Generally, this section of our submission emphasizes three major themes, which form a framework within which our recommendations are made.

65. First, the problem of retarded economic growth in New Brunswick and other similar areas of Canada is a national problem requiring Federal attention and spending if solutions are to be found. Second, no single measure, either fiscal or monetary, on the part of Government can hope, by itself, to overcome the forces impeding development. It is likely that the whole range of fiscal and monetary policies must be brought into play. It is clear that this can only be achieved through co-ordinated planning both at the Federal level itself and between the Government of Canada and the provinces. Third, in the absence of Federal Government acceptance of such responsibility in promoting balanced economic growth in Canada, and if the required co-operation and co-ordination is not achieved, then it is difficul to envisage changes in the Canadian financial system which would make any significant contribution to meeti the requirements of the New Brunswick economy.

[illegible]

66. An understanding of the main economic forces operating in the New Brunswick economy is necessary

as background for the sections on national policy which follow. New Brunswick's prosperity today, as in the past, is dependent primarily upon domestic and foreign demand for its agricultural products, lumber, pulp and paper, fish, and coal. Secondary manufacturing in the Province has never quite recovered from the decline of the wooden shipbuilding industry in the decades surrounding Confederation. Today, little more than 5 per cent of total employment is derived from this sector of the economy.

67. This dependency on external markets has left New Brunswick particularly vulmerable to short-term fluctuations in world demand and prices. This has resulted in short bursts of economic expansion interspersed with relatively long and dreary periods of economic stagnation. As a result, personal income per capita in the Province is only two-thirds the Canadian average. Unemployment has persistently remained close to double the national rate despite large scale out-migration.

68. The economic outlook for the Province is perhaps best reflected in the labour market.

69. While the level of production from the primary resource-based industries has been rising in recent years the increase has been relatively modest and certainly not enough to prevent employment from falling due to increased mechanization. The long-term outlook for some industries in this sector, and in particular pulp and paper, and mining, is fairly good, but it is not expected that employment

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will show much increase over present levels even with increased production.

70. During the past decade the decline in employment in this sector has been partially offset by the expansion of the construction and service industries. However, it is not likely that construction can be continuously expanded, and growth in the service sector must be fed by income growth resulting from industrial activity.

71. Thus, the bulk of new employment opportunities will have to come from secondary manufacturing. But, as has already been suggested, this sector has shown little net growth over the past decade. Located on the periphery of the national market and handicapped by distance from the principal population centres, New Brunswick manufacturers have had to be content, for the most part, with producing for the small and local regional market. Producers can seldom take advantage of the economies of scale deriving from the use of mass-production techniques or from the use of the latest technologies. The resulting small profit margins have led to an inability to finance market, product, or design research -- all basic ingredients in the process of economic growth.

72. This combination of declining employment in the primary sector of the economy and stagnation in secondary manufacturing has given rise to a substantial and growing labour surplus which is being further aggravated by one of the higest rates of natural population increase in Canada (the difference

between crude birth and death rates). Symptoms of this surplus are the low prevailing labour force participation rates, the high unemployment rate, and the lengthy average duration of unemployment. The large numbers of subsistence workers in agriculture, fishing, and logging are further evidence of the chronic imbalance of labour demand and supply.

73. In the past, and especially during the early and middle 1950's, large-scale emigration provided a partial solution to this problem of enormous wastage of our manpower resources. This particular cure, however, is only slightly better than the disease, for the emigrants have been largely concentrated in the young adult age groups who would, in a more buoyant economy, have formed one of the most important of the resources of the Province. Between 1949 and 1959, the age group 20-24, increased by 0.7 per cent in New Brunswick compared with the national average of 7.3 per cent. The age group 25-34, declined in New Brunswick over the same period by 6.7 per cent compared to an increase in Canada of 17.9 per cent! Large-scale emigration of our young adults has also eroded the tax base of the Provincial Government while at the same time increasing the proportion of the total population classified as dependents with important implications for the social services demanded of the Provincial Government. In 1959, 45 per cent of New Brunswick's population was in the age group 0 - 14 and 65 and over compared with 40 per cent in Canada. In the same year 46 per cent of New Brunswick's

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population was below the age of 20 compared with a national average of 40 per cent.

74. In recent years, and especially since 1957, the rate of out-migration from New Brunswick has been decreasing. While the reasons for this phenomenon are difficult to determine precisely, it is likely that the emergence of labour surpluses in the more prosperous parts of the country has been a major factor. Unemployment rates have still not fallen to acceptable levels in Ontario and Quebec despite the surprising absence of growth in the labour force in these two provinces over the past year. Obviously with little hope of obtaining a job quickly elsewhere, New Brunswickers have had to stay home. Moreover, despite the optimism of current economic forecasts, there are no apparent dynamic forces at play in the economy which will alter this situation in the near future.

75. We believe that the existence, now and for the foreseeable future, of a sizeable and growing labour surplus in New Brunswick is more than ample justification for immediate measures being taken to establish secondary manufacturing plants in the Province. The Special Committee of the Senate on Manpower and Employment reached much the same conclusion in its Third Report

> "Over the long run there are only two solutions; either the people move out to better opportunities elsewhere, or better opportunities are made available to them

[illegible]

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> where they are. The massive migration of the population is neither socially nor economically desirable, and we reject this possibility. Therefore, the other course, namely, of providing better opportunities for these people in the areas concerned, must be undertaken with determined effort."

This quotation refers to the Atlantic Region as a whole; however, it is equally valid for New Brunswick.

Policies Affecting the Financial System

76. The Federal Government has the over-all responsibility in Canada for ensuring price stability, an adequate rate of growth in the economy, and for maintaining full employment. Acceptance of this responsibility is stated explicitly in the White Paper on Employment and Income presented to Parliament in 1945, and a wide range of policy measures exist whereby this responsibility may be pursued. The most important of these measures, of course, are monetary, fiscal, and debt management policy. As the Governor of the Bank of Canada stated in his 1961 Report to the Minister of Finance, these policies "are inter-dependent and to some extent inter-changeable" necessitating "a high degree of co-ordination to ensure that the blend or 'mix' of these policies is purposefully directed towards attaining the over-all economic objectives of the community". Presumably, in the absence of the requisite degree of co-ordination, conflicting policies may be pursued leading to

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misallocation of resources, price instability, and retarded rates of growth.

77. There is evidence to suggest that national economic policies have not always been effectively co-ordinated in the post-war period and that this has led to unnecessary inflation and to overly harsh anti-inflationary measures. The spectacle of substantial increases in the money supply over a few short months followed by over a year of determined restriction and contraction, both in conjunction with generous Federal deficit spending, is clearly a part of such evidence. The rather spectacular departure of the previous Governor of the Bank of Canada a year ago brought this issue dramatically into the spotlight of public debate.

78. The undesirable consequences of persistent price inflation are well-known and do not need repeating here except to point out that these consequences are especially severe for areas and industries dependent upon export markets for their prosperity. Conversely, restrictive anti-inflationary measures bear particularly heavily upon those regions in which small business establishments predominate. The New Brunswick economy is a small business economy, and as we have already indicated, it is particularly dependent upon export markets for the output of its industries. We believe that the absence of inflationary trends in Canada is not only desirable -- it is almost a "sine qua non" for the future of New Brunswick industry, at least as long as it remains primarily export-oriented.

79. Closer co-ordination and integration of Government economic policies would provide greater assurance that inflationary tendencies can be contained. Thus, we welcome the statement of Mr. Rasminsky in the 1961 Bank of Canada Annual Report in which he says, "the need for close co-ordination of monetary,fiscal, debt management and other economic policies point to the great importance of close and continuous contact between the Bank (of Canada) and the Government" and Mr. Fleming's rejoinder, "regular and close consultation between the Governor (of the Bank of Canada) and the Minister of Finance is of the essence."

80. At the same time, we feel that these statements do not go far enough. In particular, they appear to place too much emphasis on the voluntary nature of the proposed closer working relationship. We strongly urge the Commission to consider recommending the appointment of a Standing Committee along the lines proposed by the Radcliffe Committee in the United Kingdom in its Report on the Working of the Monetary System. As in the United Kingdom, this Commission would be advisory in character and would ensure regular review of all matters relating to the co-ordination of monetary policy with the Government's economic policy as a whole. It is possible that Mr. Rasminsky had this idea in mind when he stated in his Annual Report, "even though such precaution may now seem unnecessary, consideration should be given to setting up a routine procedure for regular meetings at fairly frequent intervals between the Minister of

Finance and the Governor".

81. In addition to the appointment of a Standing Committee to ensure integration of monetary policy with other Government economic policy, we urge the Federal Government to appoint an advisory body of economic experts to the Prime Minister. This body would be outside the departmental structure and would report on economic trends and suggest policy changes designed to ensure maximum achievements of national economic objectives. At the present time, economic policy is formulated at the departmental level with the resulting loss of effective co-ordination and perspective on the needs of the Government and country as a whole. A special task of the proposed advisory body might be the co-ordination of Federal economic policies with those of the Provinces, an objective recommended earlier in this submission. We have some reservations about the degree to which Federal-Provincial co-ordination of this type would be effective, but the provinces have some responsibility here and junior government expenditures constitute a formidable portion of the Gross National Product. On this basis, some attempt is both worthwhile and necessary, since in the past the views and needs of the Provinces have not been sufficiently considered, with important and often adverse consequences for provincial budgeting.

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Bank has held itself to be bound by the section of the Bank of Canada Act which defines its function as being "to regulate credit and currency in the best interests of the economic life of the nation", with emphasis on the word "nation". Indeed, the Bank has refused to pursue a monetary policy which discriminates between different parts of the country. This is revealed in several statements by the Bank, some of which have been mentioned earlier --

> "To bring about an increase in the total quantity of money does not determine how or in what part of the country the persons who acquire the monetary resources will spend, save, lend, or invest them."

And finally,

> "while the central bank can stimulate an increase in the total of Bank deposits and bank assets it cannot usually influence the allocation of the increase towards any particular industry or sector of the economy, to local governments, or to particular regions; the actual distribution of the increase will depend on many factors which are outside the field of the central bank."

83. It is our contention that monetary policy has just those effects and influences which are above indicated to be outside its scope. Monetary policy is a blunt instrument operating in a highly imperfect market -- it has uneven effects, side effects and special effects which are unintended and in many

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84. Accordingly, we suggest that the Bank's interpretation of its responsibility has been too narrow. We feel strongly that monetary policy can be made more flexible in response to the differing needs of the various regions. At no time in the post-war period have inflationary trends been evident in New Brunswick, yet there has been little or no attempt by the monetary authorities or the banking system to shield New Brunswick from the consequences of credit restrictions. The Government of New Brunswick in conjunction with the Governments of Nova Scotia, Prince Edward Island, and Newfoundland in 1960 commissioned Professor A.K. Cairncross, who is currently Economic Advisor to the British Government, to study this situation. In particular, he was to examine:

> "the effects of monetary policy on the economy of the Atlantic Provinces and to recommend methods by which it might be made flexible so as to meet the particular needs of these provinces."

His report was published by the Atlantic Provinces Research Board early in 1961. The report concludes that:

> "what is wanted is a method of deflecting demand from the bottlenecks and points of pressure where inflation is bred towards resources that are inadequately employed, so as to allow the whole economy to reach a

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higher level of activity without generating inflationary symptoms ..... For this purpose, monetary policy is only one of the instruments that can be used and not necessarily the most powerful or the most satisfactory."

85. In the field of monetary policy, Professor Cairncross suggested that pressure be applied to the chartered banks by the Bank of Canada to exempt selected areas of the country from the full force of credit rationing. New legislation would not be needed for this purpose. This policy would not mean that the chartered banks would, in effect, subsidize borrowers in areas of economic retardation through lower interest rates but only that the banks would:

"refrain from taking action in these areas dictated to them over the rest of their operations by concern for their liquidity."

86. We strongly urge that the Bank of Canada in co-operation with the Federal Government and the chartered banks give consideration to the implementation of this proposal. We also suggest that the Bank of Canada Act be amended so to make explicit the responsibility of the Bank to conduct its operations "in the best interests of the economic life" of the constituent regions as well as "of the nation" with the proviso ,of course, that in cases of conflict, national considerations would predominate.

87. The increasingly important role played by the Industrial Development Bank in the New Brunswick

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87. The increasingly important role played by the Industrial Development Bank in the New Brunswick

economy in providing long-term credit to small and medium-sized business is evident from the following tables.

TABLE 1

LOANS AUTHORIZED BY THE INDUSTRIAL DEVELOPMENT BANK

1956 - 1961

NEW BRUNSWICK AND CANADA

(during fiscal years ending September 30)

	Number					
	1956	1957	1958	1959	1960	1961
New Brunswick	8	20	24	27	30	61
Annual % Change	-	150.0	20.0	12.5	11.1	103.3
Canada	349	401	571	599	740	1,364.
Annual % Change	-	14.9	42.4	4.9	23.5	84.0

	Amount ($000)					
	1956	1957	1958	1959	1960	1961
New Brunswick	1,344	1,236	1,399	765	888	2,711
Annual % Change	-	- 8.0	13.2	- 45.3	16.1	205.3
Canada	39,359	30,111	35,941	30,579	38,576	71,196
Annual % Change	-	- 23.5	19.4	- 14.9	26.2	84.6

Source: Computed from Industrial Development Bank, Annual Report, 1961

TABLE 2

LOANS AUTHORIZED BY THE INDUSTRIAL DEVELOPMENT BANK IN NEW BRUNSWICK AS A PERCENTAGE OF CANADIAN TOTAL

1956 - 1961

(during fiscal years ending September 30)

	Number					
	1956	1957	1958	1959	1960	1961
	%	%	%	%	%	%
New Brunswick	2.3	5.0	4.2	4.5	4.1	4.5
Canada	100.0	100.0	100.0	100.0	100.0	100.0

	Amount					
	1956	1957	1958	1959	1960	1961
	%	%	%	%	%	%
New Brunswick	3.4	4.1	3.9	2.5	2.3	3.8
Canada	100.0	100.0	100.0	100.0	100.0	100.0

Source: See Table 1

88. Of particular note is the 103% increase in the number of loans in New Brunswick between 1960 and 1961 and and 205% increase in loan value. (See Table 1). Most of this increase took place before the amendments last July to the Industrial Development Bank Act became effective and the outlook for further expansion looks very favourable.

89. Professor Cairncross found that the Industrial Development Bank

"may have acted as a safety valve" during the credit squeezes of 1955-57 and 1959-60 and in many cases "took over a customer who would have been likely, in the early fifties, to have obtained a capital loan from his bank". At the same time, he felt that the Industrial Development Bank should do more by way of accepting equities as security for loans. The legislative authority already exists for this and we hope that the statement in the 1961 Annual Report of the Industrial Development Bank that "the Industrial Development Bank might be of increasing use in making it possible to maintain Canadian ownership of family firms" is a sign that the Industrial Development Bank is now prepared to move more in the direction of increased equity financing.

90. Furthermore, in past years the Industrial Development Bank, while useful and effective, has been more of a "bank" and less of a "development" agency than we would consider appropriate. Its interest rates have been adjusted upwards in line with national monetary policies of restraint, and we can see no logical justification for this. In past years there have been increasing demands from this part of the country for a monetary policy which would be regionally oriented, both in terms of the cost and availability of funds. We have given these objectives careful consideration, and while we agree wholeheartedly in the objectives themselves, we recognize the technical difficulties inherent in implementation within the framework of our present

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chartered banking structure.

91. It is doubtful whether a distant regional interest rate structure could be developed, within which a regional "central bank" could exert influence in a direction contrary to that required in central Canada. To achieve such a situation might well require the development of a highly complex regional money market almost fully insulated from the rest of Canada. This would be at best extremely difficult and at worst, impossible.

92. However, we see no great necessity to reduce the cost or increase the availability of funds to all classes of borrowers in the region; those in a position requiring additional and/or cheaper capital in order to increase the productive capacity of the economy are those needing assistance.

93. Notwithstanding the possibilities of such policies being developed by the central bank or the Federal Government, it is our view that the operations of the Industrial Development Bank could be altered to serve this purpose. The Industrial Development Bank now has the facilities, and by separating it from the control of the Bank of Canada, and/or by regrouping its regional offices into autonomous areas for development, would make possible:

(1) regional interest rate differentials and levels insulated from the effects of national monetary policies.

(2) the availability of funds for regional development needs which would not be subject

to inter-regional capital flows.

(3) greater co-operation with Provincial Government development agencies, both in assessing development potentials and applicants for credit, and in the joint sharing of the financial risks inherent in some large government assisted industrial projects.

94. The basis for these recommendations lies in the belief that businesses in the province, and especially the smaller ones, have encountered difficulties in obtaining capital for both expansion and new ventures. As a result of the slower pace of economic activity and concentration of the decision-making processes in the head office of the financial institutions, we have the impression that funds are not quite so available as in some other parts of Canada.

95. Associated with this is the question of whether monetary policies of restraint are felt with more force in New Brunswick than in other parts of the country. There are no bodies of statistical data on which to base any answer to this question -- negative or positive. There are only judgments. However, there are a fair number of reputable economists who judge the answer to be yes. This was a problem particularly emphasized to Professor Cairncross before he began his study. As his report indicates, he did not find such differential effects on a large scale, but he did find instances in which production had been restricted because of the impact

of monetary restraint. As well, his final conclusion was that no policy of monetary restraint could be judged as appropriate for this region. If this is the case, then we believe we are justified in believing such policies to bear more heavily here than elsewhere.

96. Aside from the absolute effect of such policies on the region, there are also important questions of the timing of national policy. Normally, the Provincial economy lags behind the national economy during periods of recovery from periods of recession. In many cases, since monetary policies are geared to the aggregate statistics, a policy of credit restraint designed to promote more orderly growth nationally, is felt here at a very early stage in the recovery phase of the business cycle. The result is that the recovery is impeded, with both its rate slowed down and its length cut short.

97. As we have already indicated, there is a great lack of available information on regional capital flows, but we suggest that the operations of the banking system may be inappropriate to the capital needs of industry in another way. In our view it is quite possible that in periods when loan funds are in great demand nationally, available funds are siphoned off from this part of Canada to meet demands in other areas. In this regard, we have not been able to develop data on the regional operations of the chartered banks, and strongly recommend that the Commission investigate this possibility.

98. On the basis of these judgments we have

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concluded that under ordinary circumstances capital is not as readily available from the markets as it should be, and that in periods of national credit restraint this situation becomes more aggravated. As a result, the Province has had to enter the industrial lending field, unlike such provinces as Ontario, Quebec, Alberta and British Columbia. Even with some capital available under Federal legislation, there is still the deficiency that in many cases the maximum amount available in small business loans is frequently too little. Accordingly, we urge the Commission to give consideration to these deficiencies in its review of existing legislation which makes capital available to industry.

99. The flow of mortgage funds in New Brunswick has been determined in large extent by national monetary policy operating through the Central Mortgage and Housing Corporation. As with monetary policy as a whole, there is little evidence that C.M.H.C. has supplied mortgage funds on a discriminatory basis as between different regions. This is both possible, however, and highly desirable in view of the importance of residential construction to the economy. We suggest that mortgage funds be made available on easier terms in economically retarded areas when more arduous terms are necessary in the economy as a whole. Expressed in another manner, we are advocating that in areas of chronic under-utilization of resources, effective demand should determine the level of housing construction, not the need for credit restraint at the

national level.

100. In the field of agriculture, there are in existence three sources, aside from the banks and private lenders, of both short and long-term capital. The Canadian Farm Credit Corporation, the New Brunswick Farm Settlement Board, and loans under the Farm Loans Improvement Act are all available sources of capital for farmers operating, or wishing to operate, units of economic size and potential. On this basis, it is likely that the necessary institutional framework is available to meet the demands of the industry.

101. There have, however, been cases in which administrative rigidity has been a factor in restricting the availability of funds to many of the smaller types of farms. Although this situation has improved considerably, it is felt that every effort should be made to achieve greater flexibility in administration -- a type of flexibility which would permit the varying requirements of New Brunswick agriculture to be more fully met. Furthermore, it is suggested that the terms of repayment of loans under the Farm Improvement Loans Act is entirely too short in many cases. Possibly for such items as fertilizer, seed, feed, etc., an extension of time would be undesirable, but for such projects as building improvements, machinery purchases, herd building and similar long-term programmes, a longer period of repayment is necessary. We therefore recommend that the Commission study the possibility of such adjustments.

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Longer Term Policies

102. In the previous section emphasis has been placed on the importance of developing selective monetary controls, within a co-ordinated framework of fiscal and monetary policy, as a means of increasing the rate of growth of the New Brunswick economy. However, it is doubtful that monetary policies, however selective in nature, will play more than a minor role in the policy structure required to bring about more rapid development. Essentially, we see monetary policy as playing a stabilizing role in the short-term, while providing long-term incentive for the creation of new physical assets. As such, monetary policy becomes, in the long-term, a second line of action, after fiscal policy.

103. However, this raises the question as to what is the appropriate mix between fiscal policy, monetary policy and administrative controls in the exercise of government influence on levels of demand. Obviously, there is no proper "package" which will be appropriate for all circumstances, but there are questions of emphasis which can be answered. In the first place, it appears that in recent years there has been all too much reliance on the use of monetary instruments in response to cyclical movements in the Canadian economy. This is understandable for monetary policies have the advantages of being both anonymous and acceptable, with their effects not really being attributable to anything more precise than the "market". In addition, such policies enjoy

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[illegible]

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great flexibility, and have the ultimate effect of forcefully making known to the business community, what their reaction should be to the current phase of the business cycle.

104. In the face of such attractive features, it is extremely easy for the fiscal machinery to rest in passive tranquility during four year periods of gestation between elections. However, the very advantages mentioned above have inherent weaknesses which, in our view, have tended to greatly limit the effectivness of monetary policy in the last decade. Aside from more or less structural weakness which are discussed later, the lack of selectivity, the reliance on manipulation of the money supply and interest rates and the sheltered nature of great sectors of the economy all point to the ineffectiveness of monetary policy in recent years.

105. In our examination of the performance of monetary policy in the past decade we have been unable to detect that such policies were in any way decisive to the turn of economic events. The inexorable rise in price levels continued through periods of both monetary restriction and expansion, and movements in interest rates seem unrelated to levels of investment. With the deterioration of the value of money in the post-war period, it is understandable that businessmen are not greatly influenced by marginal movements in interest rates. This is particularly so when the high levels of corporate taxation are considered at the same time.

106. It is therefore our contention that fiscal policy must be given greater emphasis in the objectives of full employment, economic growth and price stability. This is true nationally, but particularly so in the case of New Brunswick and the entire Atlantic Region. In this respect, the lag in development in this part of the country can be very closely associated with the failure of private investment to expand at a sufficiently rapid pace. Not only in the per capita volume of new investment in the Province substantially below the national average, but differences in its distribution and growth rate have contributed to its failure to stimulate a faster pace of economic development.

107. Generally, in New Brunswick public investment bulks larger in the total than is the case nationally, and is becoming more and more important. This is not so much a reflection of an abnormally high level of public investment, but of the relatively low level of investment in the private sector. The growth rates of various types of investment in the past decade indicates that this imbalance between public and private investment is becoming greater.

108. What is therefore required are policies to stimulate the rate of private capital formation in the area. This will necessitate the large-scale allocation of funds, through Federal fiscal policies, to provide inducements to industrial location and incentives to expand production. In this respect, we have already urged the Federal Government to

establish two capital funds for such purposes -- funds to be operated in conjunction with the provinces.

109. We are not suggesting that such a policy be applied only to the Province of New Brunswick, but rather that it should be a national development policy, through which retarded or underdeveloped areas would be given special treatment to induce faster growth. The objective of such a policy is to provide a more balanced type of economic growth in Canada than has been our experience. In this regard, no reasonable person can expect all parts of a country as large and diverse as Canada to grow at similar rates. Over the long-term the process of economic growth is understandably uneven, but because of natural factors and because of the effects of short-term policies. At various points in time one area will be developing rapidly, while others languish in stagnation, only to see the reverse situation develop a generation later.

110. To some extent this has happened in Canada -- different regions have expanded at different times -- but throughout all this one fact has always been apparent. The Atlantic region has for the greater part of the history of this country lagged a considerable distance behind the rest of the nation. It is certainly true that the Atlantic region has itself expanded, and arguments are expressed that as long as the nation expands the Atlantic region will share in this growth. History indicates that this "cult of the Gross National Product" would provide a sort of

"iron law" whereby this region must always be substantially poorer than the rest of the country. We have been unable to accept such a paradoxical situation, and believe the proposition of balanced growth to be an essential ingredient in the development of Canadian nationhood.

Financial Institutions

111. The MacMillan Commission of the 1930's placed great emphasis on the structure of Canadian banking and upon the questions of stability associated with it. However appropriate this may have been for that particular time, the institutions existing at that time and arising from the enquiry itself do not necessarily operate in the same manner today. A wide variety of changes both in the institutions themselves and in their functions, have provided, in our view, a new basis upon which the financial system operates.

112. Obviously, the most important of such changes, both in magnitude and significance, has been the vase increase in that portion of the economy controlled by government. Since this sector is by and large free from the influence of monetary action, and directly affected by budgetary policy, there are obvious implications for the financial policy mix. When the spending, particularly of a capital nature, of publicly controlled corporations is added to government, the result is that the most important component of aggregate demand -- investment -

is directly responsible to fiscal policy and to fiscal policy alone. Other aspects of this changing environment include the rapid increases in corporate taxation, the substantial build-up of depreciation reserves and other sources of internal financing, the increasingly large size of the public debt, particularly short-term, and the large increases in the liquidity of non-bank institutions. All of these developments have transformed the nature of capital markets and the nature of the institutions that operate therein.

113. In our view, one of the major implications of these trends is for changes in the structure and operations of the Bank of Canada. These developments have limited the ability of the Bank of Canada to function in a manner consistent with its objectives. The compelling question is whether the objectives should be altered or the bank given broader powers. It is our judgment that the answer to this lies not entirely in any restructuring of the Bank itself, but rather in a remoulding of the entire apparatus of economic policy.

114. Those objectives of the Bank of Canada which appear so formidably at the beginning of its annual report are also the objectives of fiscal policy, and the Bank and the Department of Finance must together have sufficient authority to effectively pursue them. However, this authority, although absolute in neither case, already exists for the most part. What is then required are changes in the manner in

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which they operate together.

115. Some of these changes have already been mentioned -- increased use of fiscal policy and more selective use of the instruments of credit control. In addition, we have also suggested a technique whereby fiscal and monetary policies could be more closely co-ordinated. This is a particularly important issue since it entails questions of responsibility. To reiterate, the ultimate responsibility for both fiscal and monetary policy must rest with the Government of Canada through its Minister of Finance. However, this does not mean that the central bank must become a mere branch of the Department of Finance, and the co-ordinating machinery we have suggested would assist in avoiding this.

116. There have been recently questions raised regarding possible conflict between the Bank's responsiblities as central banker and those as fiscal agent to the Government of Canada. It has been variously suggested that the Bank should cease to act as fiscal agent for the Government, or that the Bank should use its authority to act as fiscal agent for the provinces. This latter suggestion has theoretical merits, but we find it difficult to believe that it would be practical or in any way effective. In addition, recommendations made earlier calling for a closer advisory relationship between the Bank and the provinces and for certain types of Federal financing assistance when required would obviate the necessity for making such a move.

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117. The question of the Bank ceasing to act as fiscal agent to the Federal Government is more complex. Presumably, a fiscal agent has certain responsibilities in the area of debt management, and if it were possible to separate such responsibilities from monetary policy, we would be strong proponents of just such a separation. However, we believe this to be impossible since debt management decisions, such as that to keep to the short-term market or one such as the Conversion Loan, affect the money market just as surely as changes in liquidity ratios or in open market operations. Similarly, monetary policy must not, as it apparently has been in the past, be developed on the basis of criteria different than those used in the formulation of budgetary policy, or the effectiveness of both would be destroyed. There have been suggestions that only a perfectly independent central bank can be expected to protect the country against the political indiscretions of the Minister of Finance. However attractive such suggestions might be, it is difficult to find them acceptable in the face of the fact that the Minister of Fin ance is the architect of the budget, and apparently is trusted as such by our society.

118. Given this combination of responsibilities there are arguments which we urge the Commission to examine for the broadening of the area of impact of monetary policy in order to reflect the changing environment. Certainly, some attempt must be made

to at least have the effects of monetary policy felt by the consumer finance companies and other non-bank holders of liquid assets. In addition, the impact of the concentration of large holdings of bonds in the hands of a few institutions must be studied, if monetary policy is to become more effective.

119. If inflationary forces are to be effectively curtailed, these areas, together with the concentrations of economic power in both business and labour, must be brought within the scope of Federal policy. Whether this policy is monetary, fiscal or administrative controls is really unimportant if all three are fully co-ordinated and integrated.

Regulations Governing the Issue and Sale of Securities

120. It is our understanding that a great deal of material on this subject has already been submitted to this Commission, but a few brief comments based on our experience might well be appropriate. Securities legislation has been left to the provinces in Canada, and it is generally agreed that "the subject of Canadian securities regulation is unnecessarily complicated"; that there exists a serious lack of uniformity in the laws of the various provinces; that provincial administrative personnel in the field are too few and often ineffective; that legal deterrents to securities fraud are too weak; and that provincial securities administrators are "almost completely impotent beyond" their provincial boundaries.

121. In New Brunswick, we have had a Security Frauds Prevention Act with an Administrator for a number of years, but the widely publicized stock fraud perpetrated in this province between 1958 and 1960 pointed to serious deficiencies in New Brunswick legislation, and more particularly, in the enforcement of this legislation. The Report of the investigator into these activities suggested that existing legislation be reviewed and revised, that securities regulation be divorced from any possible political considerations, and that closer co-operation be established between the various provincial regulatory bodies.

122. The question is whether inter-provincial co-operation can effectively control such fraudulent practices, or if the establishment of a Federal regulatory agency would not be more appropriate. We are inclined to support the concept of a Federal regulatory body in the field of the issuance and sale of securities for a number of reasons.

123. First, we doubt that, given the diversity of interests, inter-provincial co-operation can ever be developed to the point where it would be effective in a difficult and complicated area such as this. Second, the interest in eliminating such frauds is national in scope, since the entire nation benefits from the flow of risk capital into the country. A fraudulent practice in one province could, and probably does, damage investor confidence generally, and this affects the flow such funds into other

provinces, no matter how effective their legislation or administration. Third, to establish a really effective securities agency in each provincial capital would involve high costs and duplication which could be avoided or reduced by the establishment of a single Federal agency.

APPENDIX A

STATISTICAL APPENDIX

Appendix A

1. Debentures Issued 1 April 52 - 1 April 62

Province of New Brunswick

Funded Debt

Short Term (1 - 3 yrs)

Date of Issue	Am't of Issue	%	Maturity	Am't for N. B. E. P. C.
15 Feb 54	7,000,000	3 3/4	15 Feb 56	Cdn pay 5,900,000
2 Feb 59	1,500,000	2 1/2	2 Feb 61	do -
17 Nov 59	2,000,000	2 1/4	17 Feb 60	do -
2 Jan 60	5,580,000	2	2 Jan 62	do 5,580,000
	16,080,000			11,480,000

Medium Term (4 - 8 yrs)

Date of Issue	Am't of Issue	%	Maturity	Am't for N. B. E. P. C.
15 March 55	6,849,000	3	15 Mar 59 Cdn pay	5,782,000
1 March 57	1,306,500	5	1 Mar 62 Cdn pay	1,306,500
1 October 57	1,591,500	5	1 Oct 62 Cdn pay	-
15 June 58	5,000,000	4	15 June 63 Cdn pay	-
15 Feb 61	2,000,000	5 1/4	15 Feb 66 Cdn pay	-
15 Dec 61	1,500,000	4 3/4	15 Dec 66 Cdn pay	-
1 April 62	3,000,000	4 3/4	1 April 67 Cdn pay	-
	$ 21,247,000			7,088,500

Long Term (9 years +)

Date of Issue	Am't of Issue	%	Maturity	Am't for N. B. E. P. C.
1 April 52	10,000,000	4 1/2	1 Apr 72 U.S. pay	6,260,000
2 Feb 53	7,500,000	4 1/2	2 Feb 65 Cdn pay	2,800,000

Appendix A

1. Debentures issued 1 April 52 - 1 April 62

Province of New Brunswick

Funded Debt

Short Term (1 - 3 yrs)

Date of Issue	Am't of Issue	%	Maturity	Am't for N.B.E.P.C.
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2 Feb 59	1,500,000	2 1/2	2 Feb 61 do	-
17 Nov 59	2,000,000	2 1/4	17 Feb 60 do	-
2 Jan 60	5,580,000	2	2 Jan 62 do	5,580,000
	16,080,000			11,480,000

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2 Feb 53	7,500,000	4 1/2	2 Feb 65 Cdn pay	2,500,000

Long Term (9 years +) (Continued)

Date of Issue	Am't of Issue	%	Maturity	Am't for N. B. E. P. C.
15 July 53	7,500,000	4 1/2	15 July 69 Cdn pay	1,000,000
15 Feb 54	8,500,000	4 1/4	15 Feb 69 Cdn pay	3,612,000
15 Apr 54	9,232,000	3 3/4	15 Apr 70 Cdn pay	2,676,000
15 July 54	9,200,000	3 1/2	15 July 72 Cdn pay	5,850,000
1 Feb 55	11,500,000	3 1/4	1 Feb 70 Cdn pay	3,988,000
15 Oct 55	10,000,000	3 1/2	15 Oct 75 Cdn pay	3,505,000
1 Feb 56	5,000,000	3 7/8	1 Feb 76 U.S. pay	5,000,000
1 Apr 56	7,400,000	3 1/2	1 Apr 76 Cdn pay	5,300,000
15 Oct 56	6,000,000	4 1/2	15 Oct 71 Cdn pay	2,200,000
1 Dec 56	6,500,000	5	1 Dec 74 Cdn pay	3,000,000
1 Mar 57	6,193,500	5	1 Mar 75 Cdn pay	4,893,500
1 Oct 57	4,408,500	5	1 Oct 77 Cdn pay	200,000
2 Feb 59	5,000,000	5	2 Feb 79 Cdn pay	-
1 July 59	10,000,000	5 1/4	1 July 79 U.S. pay	-
1 Feb 60	15,000,000	5 3/8	1 Feb 85 U.S. pay	15,000,000
15 Feb 61	8,000,000	5 3/4	15 Feb 86 Cdn pay	-
15 May 61	10,000,000	5 3/4	15 May 81 Cdn pay	-
15 Dec 61	6,000,000	5 1/4	15 Dec 86 Cdn pay	-
	$ 162,934,000			$ 65,284,500

Province of New Brunswick

Treasury Bill

for purposes of financing Beechwood Power Project

8 April 1958 $ 29,500,000 3 7/8 8 April 1966 Cdn. pay

X payable in eight equal annual installments
1959 - 1966 inclusive

Swiss Loan

1 November 1959 5% S.W. Frs. 20,000,000 due 1 November 1961

Long Term (9 years +)

Date of Issue	Am't of Issue	%	Maturity	Am't for S.F.
15 July 53	7,500,000	4 1/2	15 July 69 Cdn pay	1,000,000
15 Feb 54	8,500,000	4 1/4	15 Feb 69 Cdn pay	3,612,000
15 Apr 54	9,232,000	3 3/4	15 Apr 70 Cdn pay	2,676,000
15 July 54	9,200,000	3 1/2	15 July 72 Cdn pay	5,850,000
1 Feb 55	11,500,000	3 1/4	1 Feb 70 Cdn pay	7,958,000
15 Oct 55	10,000,000	3 1/2	15 Oct 75 Cdn pay	3,505,000
1 Feb 56	5,000,000	3 7/8	1 Feb 76 U.S. pay	5,000,000
1 Apr 56	7,400,000	3 1/2	1 Apr 76 Cdn pay	5,300,000
15 Oct 56	6,000,000	4 1/2	15 Oct 71 Cdn pay	2,200,000
1 Dec 56	6,500,000	5	1 Dec 74 Cdn pay	3,000,000
1 Mar 57	6,193,500	5	1 Mar 75 Cdn pay	4,493,500
1 Oct 57	4,408,500	5	1 Oct 77 Cdn pay	200,000
2 Feb 59	5,000,000	5	1 Feb 79 Cdn pay	-
1 July 59	10,000,000	5 1/2	1 July 79 U.S. pay	-
1 Feb 60	15,000,000	5 3/8	1 Feb 85 U.S. pay	15,000,000
15 Feb 61	8,000,000	5 3/4	15 Feb 86 Cdn pay	-
15 May 61	10,000,000	5 3/4	15 May 81 Cdn pay	-
15 Dec 61	6,000,000	5 1/4	15 Dec 86 Cdn pay	-
	$ 162,934,000			$65,284,500

Province of New Brunswick

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for purposes of financing Beechwood Power Project

8 April 1958 $ 29,500,000 3 7/8 8 April 1966 Cdn. pay

X payable in eight equal annual instalments 1957 - 1966 inclusive

1 November 1959 5% S.W. Ser. 20,000,000 due 1 November 1961

N. B. E. P. C. began issuing its own debentures in January 1961. These have been as follows:

2 Jan 61	15,000,000	5 1/4	2 Jan 86 U.S. Pay	$15,000,000
1 July 61	5,000,000	5 3/4	1 July 91 Cdn Pay	5,000,000
1 Nov 61	6,150,000	5 1/4	1 Nov 86 U.S. Pay	6,150,000
1 Nov 61	3,850,000	4 3/4	1 Nov 66 U.S. Pay	3,850,000
15 March 62	2,650,000	5 1/2	15 Mar 87 Cdn Pay	2,650,000
15 March 62	7,350,000	5 1/2	15 Mar 92 Cdn Pay	7,350,000
	$ 40,000,000			$ 40,000,000

2. INCIDENCE OF TAXATION INDEX

(000)

Description		Average Population 56 - 58 (1)	Net General Provincial And Municipal Revenue 1956 (2)	1957 (3)	1958 (4)	Total (5)	Average (6)	Revenue Per Capita (7)	Ave. Per Capita Personal Income (8)	Net Per Capita Personal Income (9)	Index (10)
Newfoundland	(Prov.)		18,213	18,740	19,941						
	(Mun.)		3,605	3,773	3,882						
	(Total)	426,000	21,818	22,513	23,823	68,154	22,718	$ 53.32	$ 770	$ 717	6.92 %
Prince Edward Island			3,787	4,581	5,062						
			2,092	2,276	2,346						
		99,000	5,879	6,857	7,408	20,144	6,714	67.81	802	734	8.45 %
Nova Scotia			31,627	34,389	37,231						
			28,672	31,926	34,083						
		702,000	60,299	66,315	71,314	197,928	65,976	93.98	1,023	929	9.18 %
New Brunswick			33,333	34,385	35,795						
			22,819	26,187	28,706						
		566,000	56,152	60,572	64,501	181,225	60,408	106.73	914	807	11.67 %
Quebec			271,505 (a)	293,650 (a)	314,585 (a)						
			267,511	293,378	322,060						
		4,757,000	539,016	587,028	636,645	1,762,289	587,429	123.48	1,199	1,076	10.29 %
Ontario			257,655 (a)	313,946 (a)	338,947 (a)						
			434,265	491,581	532,959						
		5,610,000	691,920	805,527	871,906	2,369,353	789,784	140.78	1,663	1,522	8.46 %
Manitoba			31,137	34,728	37,187						
			58,997	62,510	65,318						
		860,000	90,134	97,238	102,505	289,877	96,625	112.35	1,365	1,253	8.23 %
Saskatchewan			60,004 (b)	64,347 (b)	70,489 (b)						
			71,360	77,606	83,116						
		883,000	131,364	141,953	153,605	426,922	142,307	161.16	1,266	1,105	12.73 %

(continued)

(continued) 2. INCIDENCE OF TAXATION INDEX

(000)

Description	Average Population 56 - 58 (1)	Net General Provincial And Municipal Revenue 1956 (2)	1957 (3)	1958 (4)	Total (5)	Average (6)	Revenue Per Capita (7)	Ave. Per Capita Personal Income (8)	Net Per Capita Personal Income (9)	Index (10)
Alberta		59,339	66,266	67,219						
		87,068	101,151	111,735						
	1,161,000	146,407	167,417	178,954	492,778	164,259	$ 141.49	$ 1,476	$ 1,335	9.58%
British Columbia		168,453	178,088	183,401						
		90,922	106,830	124,962						
	1,477,000	259,375	284,918	308,363	852,656	284,218	192.43	1,686	1,494	11.41%
ALL CANADA	16,573,000				6,261,326	2,087,108	$ 125.93	$ 1,403	$ 1,277	8.97%

INCIDENCE OF TAXATION INDEX

(1) Based on D. B. S. 13 - 201, 1960, Appendix, Table 1. Three year average of 1956, 1957, 1958.

(2) (3) (4) Based on D. B. S. 68 - 502, 1956 - 1960. Provincial Revenues from Part I, Section III. Total provincial revenues excluding inter-government transfers, Natural Resource revenue, Income Taxes on Corporations and Individuals.

(a) Also excluding Succession duties.
(b) Also excluding "Other Taxes" as principally composed of hospital insurance premiums.

Municipal Revenues from Part I, Section IV. Total municipal revenues excluding Provincial Government subsidies and grants in lieu of taxes.

(8) Based on D. B. S. 13 - 201, 1960, Table 29.

Submission

to the

Royal Commission on Banking and Finance

by the

Atlantic Provinces Economic Council

Halifax, N.S.,
and
Fredericton, N.B..

March, 1962.

Submission to the Royal Commission on Banking and Finance by the Atlantic Provinces Economic Council.

Summary

1. In view of the fact that the Royal Commission on Banking and Finance will receive numerous valuable submissions relating to the purely national implications of the problems before it, and in view of the primary interest of the Atlantic Provinces Economic Council in economic development in the Atlantic Region, this submission is chiefly concerned with the regional implications of the Royal Commission's inquiry.

2. There is a substantial lag in the development of the economy of the Atlantic Provinces. Low per capita income, high rates of unemployment, pronounced seasonal unemployment and underemployment in comparison with Canada as a whole are symptoms of the relatively slow rate of economic growth. The relatively slow rate of growth is, in turn, related to a relatively slow rate of capital formation.

3. Potential output cannot be realized unless aggregate demand for goods and services increases at a rate equal to the growth of potential output. The flow of funds into investment will be influenced by, and in turn will influence, aggregate demand.

Even in times of high aggregate demand in Canada, when virtually full employment is realized, there is a lag in the Atlantic Region. When there is a drop in aggregate demand so that unemployment rises in Canada, the situation is reflected in the Region and unemployment rates rise there.

4. Since the lag in the Atlantic Provinces is related to lower levels of investment, there is a definite need to bring about a more favourable balance in the investment level between the Region and the country as a whole. We contend that the flow of funds into regional investment will be encouraged in the long-run through the spending of substantial sums by the Federal Government in a relatively short period to improve the basic services required by industry, and by generous assistance to the establishment of firms which will have a considerable direct and indirect encouragement and impact for further investment. The first could be provided by an agency similar to the capital projects commission as suggested by the Royal Commission on Canada's Economic Prospects, the second by a special capital fund for the purpose. These are our first two recommendations.

5. There are several measures which can be implemented to influence the course of

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There are several measures which can be implemented to influence the course of

demand, investment, employment and growth. Some of these act through their effect on aggregate demand, others are more selective in their impact. We suggest that no one policy can by itself have the desired effect. It is, therefore, necessary to think in terms of a combination of such policies to direct the course of the economy. For example, monetary policy should ensure that the rate of growth in the money supply is compatible with the rate of growth of real output at high employment and reasonably stable prices; the tax structure should be designed to provide maximum levels of employment, containing elements of selection and discrimination if it is desirable to influence in a particular way some aspect of industrial regional or national development; and government expenditures should also have as one of their objects the maintenance of a high level of demand and employment. Our third recommendation is to stress the importance of the mix of policy to ensure continued growth.

6. Since even in times of excessive overall demand in Canada, there is still unemployment of resources in the Atlantic Provinces, we have examined means of excluding the Region from the full impact of national credit restrictions, and have offered three

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suggestions in this regard. First, we suggest that the Federal Government, the Bank of Canada, and the commercial banks examine the possibility of continuing a flow of funds into investment in the Atlantic Provinces which might otherwise be cut off at a time of restrictions to influence aggregate demand in the country as a whole. This would be accomplished not by legislation but by agreement and co-operation among the three. Secondly, we have suggested that the Federal Government and the Central Mortgage and Credit Corporation, and the Federal Government and the Industrial Development Bank, should consider making more funds available for residential and industrial construction in the Region than would otherwise be the case during periods of credit restraint. Thirdly, we suggest that the most effective means of protecting the Atlantic Provinces from the full force of national credit restrictions would be for the Federal Government to speed up its expenditures on public works to reflect the decline in private investment which occurs as a result of the restrictions.

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Introduction

The Atlantic Provinces Economic Council welcomes this opportunity of submitting to the Royal Commission on Banking and Finance, its views on matters relating to the Atlantic Provinces which come within the scope of the Terms of Reference of the Royal Commission.

The Atlantic Provinces Economic Council is an independent, non-political, non-governmental organization formed in 1954. It is dedicated to the objective of accelerated economic development in the Atlantic Provinces of Canada. It conducts research into economic matters, and recommends appropriate action to both government and industry.

The Council derives its income mainly from membership contributions by industry, commerce, other organizations and private individuals, and from research studies commissioned by public or private groups or individuals.

It will be appreciated that the matters coming within the concern of the Royal Commission on Banking and Finance are of great interest to the Atlantic Provinces Economic Council. This submission is presented with the sincere hope that it will be of some assistance to the Royal Commission in its study of the complex problems before it.

INTRODUCTION

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Section 1

Scope of the Submission

1. The structure and operation of the Canadian financial system has been, and will continue to be, a potent factor fashioning the course of economic development in Canada. From the point of view of both long-term growth and short-term stability we recognize the importance of the investigation of our financial system by the Royal Commission, and the great potential impact which your examination will have for the course which the Canadian economy will follow in the years ahead. We confidently assume that you will receive numerous valuable submissions stressing the national implications of your consideration of the financial system. For this reason, and because of our primary concern with economic development in the Atlantic Provinces, we will confine our remarks as closely as possible to the regional implications of your examination. In this way, also, we hope to be of maximum assistance to your deliberations.

2. It is perhaps desirable at this early stage to describe that area within the Terms of Reference of your Commission where we hope to make a contribution. We shall attempt to avoid use of the terms "monetary policy" and

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It is perhaps desirable at this early stage to describe that area within the terms of Reference of your Commission where we hope to make a contribution. We shall attempt to avoid use of the terms "monetary policy" a

"fiscal policy" wherever possible because of the varying interpretations which are sometimes attached to these terms. The flow of funds in Canada is, of course, greatly influenced by the policies of the Bank of Canada, of the commercial banking system and of the Federal Government. We are concerned not solely with the Bank of Canada and the responsibility which the Bank has of regulating the liquid assets of the banking system and controlling total bank assets and liabilities. There are other institutions, both public and private, which effect a large part of the flow of funds in the Canadian economy. For example, the Central Mortgage and Housing Corporation and the Industrial Development Bank are responsible for a considerable part of the flow of funds into investment. So are the several provincial agencies which lend public money to agriculture, fishing and industry. Included among the private institutions are the life insurance companies, the trust companies, and the investment companies.[1] At the same time, it should be

[1]Conforms with description by Professor Hood, Royal Commission on Canada's Economic Prospects, Financing of Economic Activity in Canada, page 319.

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noted that the flow of funds is influenced by the number of potentially profitable investment opportunities at any time, on a geographical basis, in any region of the country. In other words, our main interest is with the flow of funds to finance the economic development of the Atlantic Provinces.

Section 2

The Economy of the Atlantic Provinces

3. Discussions of the lag in the economy of the Atlantic Provinces usually stress the lower per capita income, the relatively slow rate of growth in the population and the labour force, the higher rate of unemployment, the greater incidence of seasonality in employment patterns, and the more pronounced levels of underemployment in the Atlantic Region than in the rest of Canada or in Canada as a whole. These conditions are, however, merely symptoms of a basic situation - the relatively slow rate of economic development. This, in turn, can be directly related to the relatively slow rate of capital formation in the Region. A more detailed treatment of these factors in the economy of the Atlantic Provinces is contained in Appendix A.

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Section 3

Investment and Economic Growth

4. There are many factors which influence the course of economic development. Among these are natural resources, entrepreneurship, technological change, demographic patterns, institutional and cultural factors and government action. It will, however, be readily recognized that a "proper" level of capital accumulation is a prerequisite for economic growth. The "proper" level will be the level which will be required to provide full employment over time at increasing levels of output.

5. The Report of the Commission on Money and Credit in the United States points out that "the rate of growth of potential output - in the sense of the output forthcoming from the economy's use of its human and physical resources at a high level - depends on the rate of growth of the quantity and quality of our productive resources - labour, capital goods, natural resources, management and technology - and on the efficiency with which they are used. And potential output cannot be realized unless the total demand for goods and services increases at a rate equal to the growth of potential output."[2]

[2]The Report of the Commission on Money and Credit, Money and Credit, Their Influence on Jobs, Prices and Growth, Prentice-Hall Inc., Englewood Cliffs, 1961.

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6. In a free enterprise economy it is investment by the private sector to which we look for both major manifestations of, and encouragement to, economic growth. Yet it is private investment which is the most volatile and the most sensitive to changes in demand. It is apparent that overall demand in the Canadian economy during the period 1949-57 influenced, and in turn was influenced by, ever increasing levels of private investment (business gross fixed capital formation).[3] During this period also public investment (government gross fixed capital formation) continued to rise.[4] On a per capital basis private investment rose from $226 in 1949 to $306 in 1957. Although the tendency is for public investment to be more stable, on a per capita basis public investment rose from $38 in 1949 to $59 in 1952 and $58 in 1957 and in 1957. As a result total investment per capita increased from $264 in 1949 to $364 in 1957. The following table traces the trend in per capita investment in Canada through the period 1949-60.

[3]Special Committee of the Senate on Manpower and Employment, Report, Ottawa, 1961.

[4]D.B.S., National Accounts, Income and Expenditure.

Investment Per Capital, Canada, 1949-60

In Dollars (Constant 1949) Per Capita

Year	Gross Fixed Capital Formation Business	Government	Total
1949	226	38	264
1950	231	41	272
1951	236	48	284
1952	248	59	307
1953	264	52	316
1954	243	48	291
1955	252	51	303
1956	304	58	362
1957	306	58	364
1958	278	56	334
1959	262	58	320
1960	241	58	299

Source: Computed from D.B.S., National Accounts, Income and Expenditure.

7. Not only was total investment in the Maritime Provinces less than two-thirs total investment in Canada on a per capita basis during this period, and in Newfoundland about one-half,[5] but public investment accounted for a much greater proportion of the total in the Atlantic Region. In Canada between 1949 and 1957 inclusive investment by institutions and government departments accounted for 19 per cent of total new investment, and in the two Maritime Provinces of Nova Scotia and New Brunswick for 31 per cent.[6]

8. During the 1949-57 period in Canada overall demand was sufficient to encourage a con-

[5]See Appendix A.

[6]Computed from Department of Trade and Commerce, Private and Public Investment in Canada, various issues. It is impossible to include Prince Edward Island and Newfoundland in this analysis because of the inclusion of investment in housing with institutional and government department investment data for those provinces.

tinually increasing rate of investment, and in turn to be encouraged by it, so that the economy expanded rapidly and employment was high. At no time did the rate of unemployment rise above 4.3 per cent of the labour force (in 1954 and 1957) and in six years of the period it was below 3.2 per cent.[7]

9. In the Atlantic Provinces investment was less than two-thirds that of Canada on a per capita basis, a rddlatively large portion of total investment was by institutions and government departments, and unemployment rates were high - never below 4.3 per cent. In fact the rate was 8 per cent or over in 1950 and 1957, and between 5.3 per cent and 6.6 per cent in 1953 through 1956.[8]

10. In Canada during the period 1957-60 private investment declined in both aggregate and per capita terms. Although public investments per capita remained firm, total per capita investment declined each year during the period. During this period also investment by institutions and government departments rose to 23 per cent of total new investment in Canada and remained approximately stead in Nova Scotia and New Brunswick.[9] Under these influences of decreased

[7] Computed from D.B.C., <u>The Labour Force</u>. All rates are annual averages.
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overall demand and decreased investment unemployment rates rose to 5.6-6.3 per cent in Canada and 10.6-12.5 per cent in the Atlantic Provinces.

11. Thus our interest in investment is twofold. First, the rate of investment in the Atlantic Provinces must be brought into a more favourable relationship with that of Canadian investment to promote a more rapid rate of regional economic growth. Secondly, we are interested in maintaining overall demand to encourage increasing levels of investment and continued growth in both Canada and the Atlantic Region.

Section 4

Encouraging Investment

12. The problem of the Atlantic Provinces is not unique. As a matter of fact, practically all industrial countries have within their borders areas which are economically retarded. Generally policies to assist these areas, and most nations have subscribed to the principle of a better balance among their constituent areas, are designed to encourage investment.

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13. The Royal Commission on Canada's Economic Prospects considered the role of improved public facilities to encourage the further

development of the resources of the Atlantic Region. It suggested that a Capital Projects Commission for the Atlantic Provinces should be established. The purpose of the Commission would be to provide over a reasonably short period the facilities which are needed for further development, and to co-ordinate all capital expenditures and subsidies in the Region for this purpose, other than projects which are national in scope. We urge the creation of a commission of this nature.

14. In Western European nationsl government grants play an important role in encouraging regional development. In the United Kingdom and in Belgium emphasis is placed on the preparation of industrial sites and the construction of plants to encourage industrial location. Government agencies in Great Britain and Northern Ireland have designed and constructed groups of factories to various standard specifications prior to the location of tenants, as well as in terms of particular tenant specifications. In Britain also a grant is available to cover 85 per cent of the excess of the cost of putting up a new building or extension over its market value. This was designed as an incentive to industrialists who prefer their own custom-built premises

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to renting a factory on a Trading Estate. In other European countries, in Norway and in Italy for examply, substantial assistance is available to encourage the development of key or "corner stone" plants - plants capable of exerting considerable future direct and indirect impact on the area's economy.

15. The object of these policies is capital formation in economically retarded areas. The emphasis is on industrial estate plans and on "corner stone" plants where such development will encourage, directly and indirectly, new demand, new investment and new employment in the area. We recommend the establishment by the Government of Canada of a fund from which grants would be available to assist the development in the Atlantic Provinces of "corner stone" plants, industrial estates or other establishments with considerable multiplier impact, the exact nature and organization of the fund to be determined by the federal and provincial governments.

Section 5

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16. Earlier in this submission we indicated that we did not intend to dwell upon the

purely national aspects of your Commission's inquiry. Our remarks in this section will be general and brief.

17. The American Commission on Money and Credit[10] noted that monetary, credit and fiscal policies can influence significantly the composition of demand and the aggregate level of demand. The Commission then stated that "the problem of the mix of policy measures is so to influence the level and composition of demand that the aggregate levels of public plus private demands will result in sustained high level output and employment and that the share of capital formation in total output will generate an adequate rate of growth".

18. Elaborating further on the policy mix the Commission noted that "at any given time there exists a basic tax structure, a pattern of government credit programs, a level of money supply, a structure of interest rates, and other monetary and credit conditions", all of which "affect the level and composition of demand in the economy". In other words, monetary, fiscal, debt management and credit policies must be co-ordinated to provide sustained growth, a high level of employment and reasonable price stability. But as the Radcliffe

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Committee[11] pointed out, "there is no prescription which determines the proportion in which at any one period these measures should be combined".

19. Monetary policy, as ordinarily interpreted, is designed to influence aggregate demand. But the American Commission on Money and Credit noted that an increasingly large proportion of business investment is financed with internal funds and not affected by interest rate and money supply policies. The Commission also pointed out that "changes of interest costs are often said to have a negligible influence on business investment compared with the uncertainties regarding future sales, profits, costs, and capacity requirements".[12] In addition, monetary policy, by its influence on aggregate demand, "disturbs some institutions and some people more than others".[13] Later the American Commission noted that "general monetary measures affect short-term interest rates more than long-term rates, housing expenditures more than business expenditures for plant and equipment and inventories, and

[11] Committee on the Working of the Monetary System, Report, London, 1959.

[12] The Report of the Commission on Money and Credit, op. cit.

[13] Committee on the Working of the Monetary System, op.cit.

expenditures for consumer durable goods more than for non-durable goods".[14]

20. There are, of course, some fiscal devices, for example, changes in the personal income tax, which are designed to influence aggregate demand. Other types of public policies are more selective in nature. Public policy can, and does for example, direct credit in favour of such sectors as residential housing, agriculture, transportation, small business and exports. Taxation policy may also contain elements of discrimination. For instance, it has in Canada been considered desirable to discriminate in favour of oil and gas exploration and of industries producing new products in the country or in a labour surplus area. Public investment is also used to influence the direction and pace of economic development.

21. Monetary policy in the long rum should ensure that the rate of growth of the money supply keeps pace with the rate of growth of real output at high employment and reasonably stable prices. The tax structure should also be designed to provide maximum levels of employment. At times special tax incentives may be necessary to stimulate

[14] The Report of the Commission on Money and Credit, op.cit.

areas of economic activity on an industrial, national or regional basis. Certain types of government expenditure contribute directly to the pace of economic growth, others complement private investment, and still others stir advances in technology.

22. In short, monetary policy is non-discriminatory in its effect while other policies are more selective. In recent years Canada has tended to place emphasis on monetary techniques to direct the course of the economy. As previously noted a restrictive monetary policy, in the words of the Radcliffe Committee, "disturbs some institutions and some people more than others". Professor Barber pointed out in the Canadian Journal of Economics and Political Science, February, 1962, that "as capital spending increased in the face of the Bank of Canada's restrictive monetary policy, prospective spenders were forced to resort increasingly to foreign sources of funds. The conversion of these funds into Canadian dollars exerted upward pressure on the exchange market and, as a result, the value of our dollar which had slipped back to about par in late 1955, climbed steadily throughout 1956 and 1957 until it reached a peak of almost 6 per cent in August, 1957".[15]

[15] Barber, Clarence L., Canada's Unemployment Problem, Canadian Journal of Economics and Political Science, February, 1962.

23. Insofar as a restrictive monetary policy contributes to an appreciation of the Canadian dollar, it has important consequences for a region which is highly dependent on export markets. In the Atlantic Provinces, the forestry, mining and fisheries industries, which accounted for nearly 40 per cent of the Region's net value of commodity production in 1959,[16] are dependent on exports to a high degree. Also to the extent that a restrictive monetary policy contributes to discourage investment by provincial and municipal governments in infrastructures, it tends to deter economic development. This, of course, applies to all areas of the country. But in the Atlantic Provinces where the problem is one of encouraging development rather than of restraining excessive demand it assumes more serious dimensions. In addition, it is small business which is most affected by restrictive monetary practices, and small businesses tend to be a feature of the economy of the Atlantic Provinces.

24. In the Atlantic Provinces personal income per capita is about two-thirds of the Canadian level. In periods of credit restraint when interest rates tend to be high,

[16] Includes primary forestry, fishing and mining, and fish processing, saw milling and pulp and paper.

a burden is placed on the buyer of new residential dwellings in the region which, in relation to his income, is out of proportion with the burden imposed in areas where personal income per capita is higher. This may mean that a potential buyer must abandon or defer his intention to purchase, or if he proceeds, his spending on other items will be correspondingly lower. This will apply also to the small businessman - he may be forced to forego necessary capital spending, or cut back elsewhere in his spending, in such periods. We have already noted that small business tends to be a feature of the regional economy.

25. It is not our intention to offer any firm recommendations to your Commission as a result of these remarks. Earlier in our submission we indicated that, because of the many valuable briefs which will be presented to you as to the national aspects of your problem, and because our immediate concern is primarily with the economic development of the Atlantic Provinces, we would confine our discussion to matters of basically regional impact. Our first interest as Canadians is, of course, with the achievement and maintenance of a satisfactory growth rate in the national economy. We have, however, ventured into this field

a burden is placed on the buyer of new residential dwellings in the region which, in relation to his income, is out of proportion with the burden imposed in areas where personal income per capita is higher. This may mean that a potential buyer must abandon or defer his intention to purchase, or if he proceeds, his spending on other items will be correspondingly lower. This will apply also to the small businessman - he may be forced to forego necessary capital spending, or cut back elsewhere in his spending, in such periods. We have already noted that small business tends to be a feature of the regional economy.

25. It is not our intention to offer any firm recommendations to your Commission as a result of these remarks. Earlier in our submission we indicated that, because of the many valuable briefs which will be presented to you as to the national aspects of your problem, and because our immediate concern is primarily with the economic development of the Atlantic Provinces, we would confine our discussion to matters of regional impact. Our first interest as Canadians is, of course, with the achievement and maintenance of a satisfactory growth rate in the national economy. We have, however, ventured into this field

primarily because, as we have shown, a drop in aggregate national demand has serious consequences for the Atlantic Region. We can only suggest that rather than considering monetary policy, fiscal policy, debt management policy and public investment policy separately we must in future consider the proper combination of such policies at any particular time to ensure a proper level of economic growth in Canada.

Section 6

The Financial System and the Atlantic Provinces.

26. We have already noted that we believe the first and most important requirement to promote a more rapid rate of growth in the Atlantic Provinces is a very substantial injection of new capital - and this over a relatively short period of time. We have suggested that this can be accomplished by the spending of federal funds to improve and extend the basic service requirements of economic development, and by the provision of adequate federal funds to encourage and assist private investment which would have a considerable direct and indirect effect on the Region's economy. We have also advanced some remarks concerning the operation of the Canadian financial system and its

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effect on the Atlantic Provinces. In this section we shall discuss this matter in more detail.

27. Policies which affect the flow of funds into investment include, as we previously suggested, not only the Bank of Canada and the chartered banks, but also a host of other public and private institutions. Those policies which are aimed at aggregate demand will tend to affect all areas of the country indiscriminately. For example, if aggregate demand is excessive a policy of restraint will be designed to relieve the pressure of the excessive demand generally, even though demand in the Atlantic Provinces is not sufficient to provide full employment. We would not suggest that the Atlantic Region could be completely sheltered from the effects of such restraint. The Region would be influenced, for instance, through sales of regional firms in other parts of Canada, through interest rates which regional borrowers would have to pay, and through the credit rating of regional borrowers whose prospects are related to the tempo of business elsewhere. Nor do we suggest that relief from restraint would have any appreciable effect on long-term regional development. We do suggest, however, that there are

selective as well as general techniques in this field which can be employed to encourage regional development. We referred generally to this in our discussion of the mix of policy in Section 5, and suggested in Section 4 two selective policies to assist the flow of funds into investment in the Region. We have also referred to taxation policy which gives preferred treatment to some industries and to labour surplus areas.

28. As Professor Cairncross[17] suggested there is a reason for applying credit restrictions less rigorously in the Atlantic Provinces when such restrictions are necessary to influence aggregate demand in the country as a whole. With regard to bank credit, Professor Cairncross suggested that the commercial banks could be encouraged to exempt selected provinces or other administrative areas from the full force of credit restrictions. It would be difficult to devise legislation for this purpose, and in fact legislation might be an inefficient way of accomplishing it. Rather, if such a policy had "the full backing of the Federal Government, and was recognized to involve

[17] Cairncross, A.K., Economic Development and the Atlantic Provinces, Atlantic Provinces Research Board, Fredericton, 1961.

co-operation between government, central bank and commercial banks", Professor Cairncross suggested that the commercial banks would likely agree to a measure of this nature. All this would mean would be that the banks would "refrain from taking action (in the Region) dictated to them over the rest of their operations by concern for their liquidity". They would still continue to reject unfavourable loan applications, their interest rates would not necessarily remain unchanged, and their lending in the Region might decline or rise no faster than in other areas. <u>We suggest that the Federal Government, the Bank of Canada and the commercial banks examine this possibility with a view to continuing a flow of bank credit into investment in the Atlantic Provinces which might otherwise be cut off at a time of restrictions to influence aggregate demand in the country as a whole.</u>

29. Professor Cairncross also referred to the policy of the Central Mortgage and Housing Corporation. Residential construction actively has considerable possibility of counter-cyclical impact, and has been used for this purpose in Canada. It would, of course, be of no practical value to exempt the Atlantic Provinces from the full restriction of credit for residential housing

unless a demand for such credit exists. We suggest that the Federa l Government and the Central Mortgage and Housing Corporation should consider making more funds available for residential construction in the Atlantic Provinces than would otherwise be the case during periods of credit restraint. We further suggest that this policy apply also to the activities of the Industrial Development Bank.

30. There are, however, more direct means of protecting the Atlantic Provinces against the full impact of credit restraint. Professor Cairncross suggested that "the most direct method is through increased disbursements by the Federal Government either in public works or through higher grants-in-aid". He went on to note that "this does not mean that every time credit is restricted the Federal Government should embark on some grandiose project hitherto pigeon-holed and of doubtful long-term value to the area. It ought rather to imply some speeding-up of work already in hand throughout the area, at a rate that may do little more than reflect the slowing-down of private investment". Then in summary Professor Cairncross stated, "What this comes to is that it is easiest to offset the consequences of a general restriction

unless a demand for each credit exists. [illegible]

30. There are, however, some other means of [illegible] the full impa[illegible] of credit [illegible]. Professor [illegible] suggested that "the most direct method [illegible] Government [illegible] [illegible] of [illegible] value [illegible] general [illegible]

of credit by stepping up local expenditure in the areas where there is still plenty of slack". <u>We suggest that a policy of speed-up in federal public works expenditures is appropriate in the Atlantic Provinces during periods of general credit restriction.</u>

Appendix A

The Economy of the Atlantic Provinces

1. Per Capita Income

Per capita income levels in the Atlantic Provinces are considerably below those in Canada as a whole. During the period since 1940 personal income per capita in the three Maritime Provinces has been approximately 70 per cent of personal income per capita in Canada as a whole. In Newfoundland, personal income per capita has ranged between 50 per cent and 60 per cent of per capita income in the nation as a whole. There is no evidence of any long-term improvement in these relative positions.

Table 1

Personal Income Per Capita, Maritime Provinces and Newfoundland, as Per Cent Personal Income Per Capita, Canada, 1940-160.

Year	Maritime Provinces	Newfoundland
1940	70.1%	%
1941	69.5	
1942	67.4	
1943	71.7	
1944	71.3	
1945	75.4	
1946	79.1	
1947	76.4	
1948	69.1	
1949	70.6	50.2
1950	70.8	51.5
1951	66.3	50.3
1952	66.9	48.7
1953	66.9	51.2
1954	70.2	54.2
1955	68.9	53.4
1956	69.5	53.8
1957	68.9	56.1
1958	69.4	56.5
1959	70.0	55.1
1960	71.6	55.6

Source: D.B.S., *National Accounts, Income and Expenditure,* various issues.

2. Population

The population of Canada rose by 55 per cent between 1940 and 1961. During this same period the population of the Maritime Provinces increased by 29 per cent, while Newfoundland's rate of population increase approximately parallelled that in Canada as a whole.

There are two factors accounting for the more rapid rise in the population of Canada than in the population of the Maritime Provinces. In the first place the Maritime Provinces have attracted only an insignificant proportion of the immigrants who have come to Canada since the end of World War II. Secondly, a large proportion of the native born move out of the Maritimes to other parts of Canada and to the United States. Mrs. Levitt estimates that during the decade 1941-51 net migration from Prince Edward Island amounted to 78 per cent of the natural increase in population, from Nova Scotia 38 per cent, and from New Brunswick 42 per cent. During the period 1951-56 she estimates 90 per cent for Prince Edward Island, 16 per cent for Nova Scotia and 35 per cent for New Brunswick. At the same time, it is among the young adult age group that the highest rate of out-migration occurs.[1] The situation in

[illegible]

[illegible]

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Newfoundland is largely due to a high birth rate, the extension of health services with a resultant drop in the death rate, and very little net out-migration. During the 1951-56 period for example, Mrs. Levitt estimates no net out-migration from the Province.[2]

[1]Levitt, Kari, Population Movements in the Atlantic Provinces, a study commissioned by the Atlantic Provinces Research Board and prepared by the Atlantic Provinces Economic Council, Fredericton, 1960.

[2]Ibid.

Table 2

Population, Canada and Atlantic Provinces, 1940-61

In 1000

Year	Canada*	Maritime Provinces	Newfoundland
1940	11,682	1,116	301
1941	11,810	1,130	303
1942	11,962	1,145	308
1943	12,108	1,160	313
1944	12,262	1,163	316
1945	12,394	1,178	322
1946	12,622	1,180	330
1947	12,888	1,197	337
1948	13,167	1,216	344
1949	13,447	1,231	345
1950	13,712	1,246	351
1951	14,007	1,257	361
1952	14,459	1,279	374
1953	14,845	1,297	383
1954	15,287	1,314	395
1955	15,698	1,330	406
1956	16,081	1,349	415
1957	16,589	1,366	426
1958	17,048	1,387	438
1959	17,442	1,408	449
1960	17,814	1,426	459
1961	18,085	1,443	468
% Inc. 1940-61	54.8	29.3	55.5

*Includes Newfoundland both before and after Confederation.

Source: D.B.S., Canadian Statistical Review, various issues.

3. Labour Force, Employed, Unemployed

Table 3

Labour Force, Employed, Unemployed, Atlantic Provinces, 1953-61

Annual Averages

Year	Labour Force In '000	Labour Force Index	Employed In '000	Employed Index	Unemployed In '000	Unemployed Index
1953	505	100.0	478	100.0	27	100.0
1954	501	99.2	468	97.9	33	122.2
1955	511	101.2	478	100.0	33	122.2
1956	521	103.2	490	102.5	31	114.8
1957	541	107.1	496	103.8	45	166.7
1958	544	107.7	476	99.6	68	251.9
1959	553	109.5	493	103.1	60	222.2
1960	567	112.3	507	106.1	60	222.2
1961	592	117.2	526	110.0	66	244.4

Source: D.B.S., The Labour Force, various issues.

Because of a slower rate of population growth and of a somewhat lower labour force participation rate, it is to be expected that the size of the labour force would grow less rapidly in the Atlantic Provinces than in the country as a whole. Also the numbers employed in the Atlantic Region have grown less rapidly than the size of the labour force. During the period 1953-61 the labour force grew by 17 per cent and the numbers employed by 10 per cent. In 1961 of an addition to the labour force of 25,0000, the equivalent of 76 per cent found jobs and 6,000 joined the ranks of the unemployed.

The rate of unemployment in the Atlantic Provinces has consistently been above that prevailing in other regions.

4. [illegible]

[illegible]

[illegible] Atlantic Provinces, 1953-61

[illegible]

Year	Labour Force In '000	Index	Employed In '000	Index	Unemployed In '000	Index
1953	505	100.0	478	100.0	27	100.0
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Table 4

Rate of Unemployment*, Canada by Regions, 1953-61

Year	Atlantic Provinces	Quebec	Ontario	Prairie Provinces	British Columbia
1953	5.3	3.8	2.1	1.8	3.8
1954	6.6	5.9	3.8	2.5	5.2
1955	6.5	6.2	3.2	3.1	3.5
1956	6.0	5.0	2.4	2.2	2.8
1957	8.3	6.0	3.4	2.7	5.0
1958	12.5	8.8	5.4	4.1	8.5
1959	10.8	7.9	4.5	3.3	6.4
1960	10.6	9.1	5.4	4.2	8.7
1961	11.1	9.3	5.5	4.6	8.5

* Numbers unemployed expressed as per cent of the labour force, annual averages.

Source: D.B.C., The Labour Force, various issues.

4. Seasonal Unemployment and Underemployment.

An annual average unemployment rate reflects, of course, seasonality in employment patterns. Seasonal unemployment is a problem in Canad , but a greater problem in the Atlantic Provinces. We estimate that in the Maritime Provinces during the 1955-59 period for non-agricultural employment, the seasonal low was 92.4 per cent of the average for the period, and the seasonal high was 105.8 of the average. The spread between the high and the low was thus 13.4 percentage points. In Newfoundland it was 24.2 and in the rest of Canada (Canada excluding the Atlantic Provinces) it was 7.4.[3]

[3] Sparks, A.C., The Economy of the Atlantic Provinces, 1940-58, Atlantic Provinces Research Board and Atlantic Provinces Economic Council, Fredericton, 1960.

For the period 1950-55 Dr. Howland estimates the amplitude of seasonal unemployment for the Atlantic Provinces to be 8.6 percentage points and for Ontario 4.9 percentage points. He also suggests that in the Atlantic Region in 1951 some 30,000 man-years of labour were lost through differences in employment conditions relating to time worked.[4]

It is difficult to offer a precise measure of underemployment. With regard to the Atlantic Region the Royal Commission on Canada's Economic Prospects noted:[5]

> "... one of the most striking features of the economy of the Atlantic Provinces is the disproportionately large number of people engaged in marginal activities, subsistence farming, fishing and logging, or some combination of these. Such occupations are the source of the low incomes which seriously affect average earnings in the region. This prevalence of subsistence occupations in the Atlantic Provinces is in part a symptom of more basic problems. Elsewhere in Canada these occupations are often associated with the fringe of the more highly developed

[4]Howland, R.D., Some Regional Aspects of Canada's Economic Development, Royal Commission on Canada's Economic Prospects, Ottawa, 1957.

[5]Royal Commission on Canada's Economic Prospects, Final Report, Ottawa, 1957.

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[5] Royal Commission on Canada's Economic Prospects, _Final Report_. Ottawa, [illegible]

"and expending areas. But in the Atlantic Provinces the phenomenon is more closely related to a lag in economic growth and directs attention to one of the main reasons for this lag in economic activity, namely, the relatively slow rate of new capital investment in the Atlantic Provinces."

5. Commodity Output

Table 5

Net Value of Commodity Production, Canada and Atlantic Provinces, 1940-59

In $ '000

Year	Canada	Maritime Provinces	Newfoundland*
1940	3,730,225	224,395	
1941	4,572,505	249,381	
1942	6,046,079	307,527	
1943	6,390,459	350,112	
1944	6,981,043	378,851	
1945	6,307,666	361,680	
1946	6,762,258	389,647	
1947	8,011,144	428,198	
1948	9,427,809	494,904	
1949	9,734,887	507,001	
1950	10,928,879	537,572	
1951	13,169,417	610,335	146,850
1952	14,064,045	628,893	153,332
1953	14,712,673	629,143	149,195
1954	14,165,720	637,791	165,436
1955	15,849,948	676,440	190,913
1956	17,782,038	745,079	212,312
1957	17,919,713	734,556	192,812
1958	18,073,718	742,006	190,229
1959	18,827,759	773,846	210,402
% Inc. 1940-59	404.7	244.9	
% Inc. 1951-59	43.0	26.8	43.3

These figures reflect price changes.

*Newfoundland data exclude agriculture.

Source: D.B.S., Survey of Production, 1959.

In the table above, because of the differences in the industrial composition between the Atlantic Provinces and Canada, and indeed the composition of products within each sector, it was considered unwise to attempt to use any of the available price indexes, or combination of them, to determine net value in real terms. The results, therefore, reflect price changes as well as trends in commodity production. They are, however, sufficient to show that commodity output has risen at a substantially higher rate in the nation as a whole than it has in the Atlantic Provinces.

6. Investment

We have already referred to an observation of the Royal Commission on Canada's Economic Prospects regarding investment in the Atlantic Region. The Commission stated that "the relatively slow rate of new capital investment in the Atlantic Provinces" is a main reason for the slow rate of economic growth. This in turn is responsible for the high levels of underemployment and the income differential.

Since 1949 new capital investment per capita in the Maritime Provinces has generally been below two-thirds of that in Canada as a whole - in only four years during this period was it slightly above two-thirds, and on six occasions was less than 55 per cent of the Canadian figure. In Newfoundland new investment per capita has been

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slightly under or slightly over one-half that in Canada. The only exceptions were in 1952, 1960 and 1961. For the latter two years the data are still preliminary.

With a lag in investment of this magnitude a lag in development is to be expected. Increased levels of capital accumulation hold the key to accelerated economic growth in the Atlantic Provinces.

Table 6

New Investment Per Capital in Buildings and Machinery, Canada and Atlantic Provinces, 1949-61

Year	Canada Per Capita Inv.	Maritime Provinces Per Capita Inv.	Maritime Provinces % of Canada	Newfoundland Per Capita Inv.	Newfoundland % of Canada
1949	$260	$185	71.2	$117	45.0
1950	278	191	68.7	130	46.8
1951	327	195	59.6	161	49.2
1952	365	199	54.5	230	63.0
1953	393	218	55.5	209	53.2
1954	368	223	60.6	184	50.0
1955	405	265	65.4	219	54.1
1956	499	291	58.3	228	45.7
1957	526	270	51.3	236	44.9
1958	494	281	56.9	237	48.0
1959	483	331	68.5	256	53.0
1960*	460	311	67.6	325	70.7
1961*	461	295	64.0	375	81.3

* Preliminary Actual.
**Intentions.

Source: Department of Trade and Commerce, Private and Public Investment in Canada, various issues.

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